



Annual 2021 Report



Summerland tree planting with Bangalow Koalas in June 2021

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Registered office

101 Molesworth Street
Lismore NSW 2480
1300 802 222

Auditors

Grant Thornton
KPMG

Summerland Credit Union acknowledges the Traditional Custodians of the land on which we live and work in Australia. We pay our respects to elders past, present and emerging, and acknowledge the ongoing connection that Aboriginal and Torres Strait Islander peoples have with Australia's land and waters.



About us

Proudly sponsoring Mullum2Bruns Paddle May 2021.

Who we are

Summerland Credit Union is 100% customer owned, which means each of our customers owns one share.

Customer owned or mutual means that we exist to benefit our customers. Profits don't go to external shareholders and as a customer we promise to treat you like you own the place, because as a customer of Summerland you do!

We are governed by a Board of Australian Directors and our day-to-day operations are led by our Chief Executive Officer and Executive Team along with 97 staff who are all based in the Northern Rivers of New South Wales and the Southern Gold Coast region.

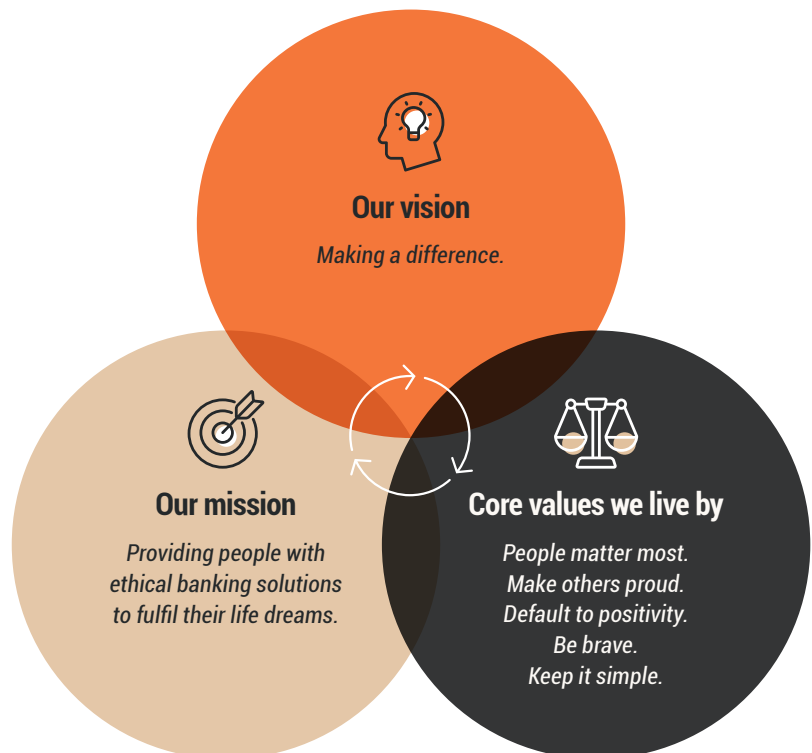
We represent more than 25,000 customers, and we're custodians of \$933 million in assets as at 30 June 2021.

What we do

We accept deposits from savers and lend money to borrowers to help our customers fulfil their life dreams.

We lend borrowers money to buy homes, cars, investment properties or a range of other purposes.

We have \$724 million in our loan portfolio and \$828 million in deposits as at 30 June 2021.



How we do it

We provide good quality products and services that are competitively priced.

We genuinely care about the financial wellbeing of our customers and provide an exceptional customer experience that is delivered through our outstanding employee experience.

We support the community, environment and economic sustainability of the regions in which we operate.

We have no direct investments in, or any loans to fossil fuel or coal seam gas (CSG) mining industries.

We are the first financial institution to become a Gold Partner of the NSW Sustainability Advantage Program which demonstrates our continued outstanding environmental achievements and leadership.

We have achieved White Ribbon Accreditation, by having zero tolerance of any form of harassment, bullying, abuse, discrimination or domestic and family violence. Respectful relationships provide a strong foundation for our workplace culture; expressing the way we do business with our customers. It's one of the reasons we were recently awarded Kincentric Employer of the Year.

Chair & CEO Report



Welcome to the 2021 Annual Report. On behalf of the Board, our Executive team and our people, thank you for being part of our story.

Strong growth

Our financial growth and performance for 2021 has been strong despite the COVID-19 pandemic, the short sharp recession and higher levels of unemployment.

Our net profit after tax was a record breaking \$4.9 million and our total assets grew to \$933 million.

We've retained a strong liquidity of 19.3% which has enabled us to provide some of the lowest home loan rates in our history for customers to enjoy.

Record growth and a new generation of customers this year emphasises the value

and service Summerland provides. This was reflected in strong deposit growth of \$65 million and loan growth of \$73 million throughout the year.

Supporting customers through COVID-19

As the COVID-19 pandemic continues to be a challenge for many Australians, Summerland has provided many customers with loan repayment deferrals and access to our hardship assistance program. As the situation evolves, we will continue to be here to support our customers according to their individual circumstances.

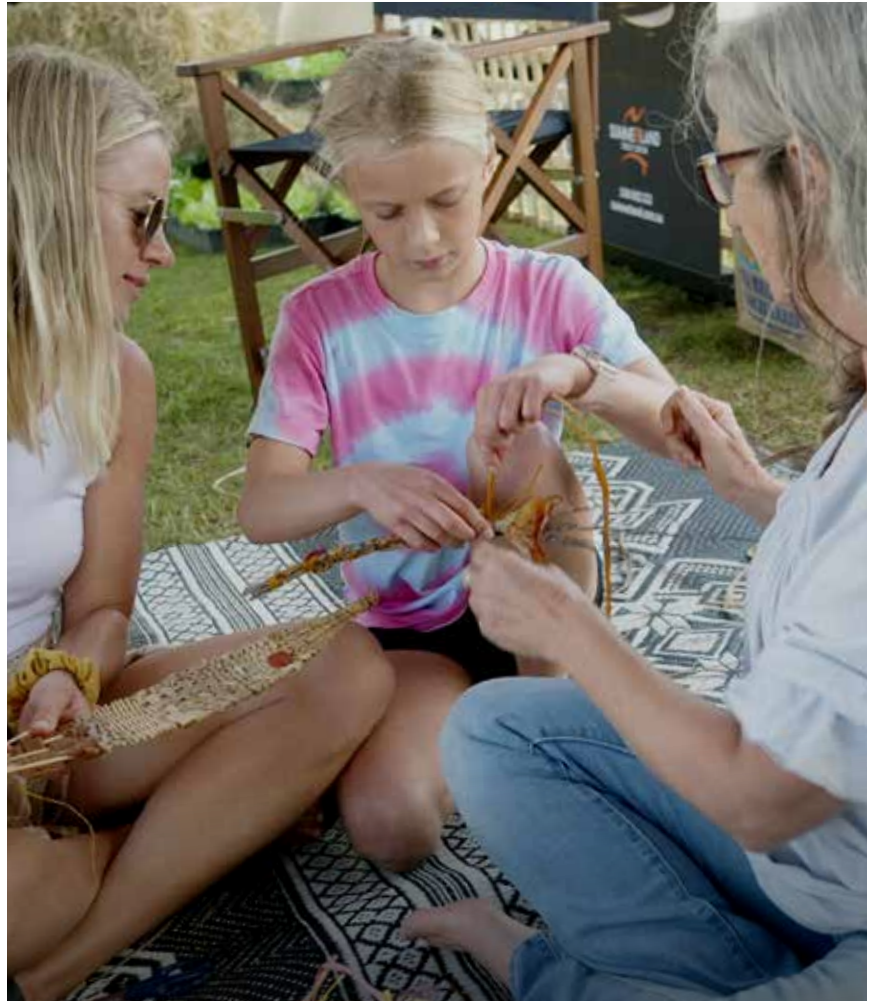


Ensuring the safety of staff and customers through COVID-19.

Our net profit after tax was a record breaking \$4.9 million and our total assets grew to \$933 million.



As a founding partner of the regional tourism and development group, Northern Rivers Together, we are working to revitalise the Northern Rivers NSW brand.



Summerland creative weaving workshop, Mullum2Bruns Paddle May 2021

Happy customers

Many financial institutions use a system called the *Net Promoter Score* (NPS) to measure customer satisfaction and to gauge their willingness to recommend a brand to family and friends.

We are thrilled to report that our NPS averaged 66 for the year – up from 55 in 2020. This is an excellent result, particularly when you consider that, according to Roy Morgan research, the big four banks averaged 15.4 in April 2021. We believe that a significant contributor to this success is our *customer value proposition* which underpins everything we do.

We are proud to employ local people in our Contact Centre which is based at our head office in Lismore. The team provide excellent service for our customers and had a significant increase in enquiries, particularly during the pandemic.

Changes to the Board

There have been quite a few changes to the Summerland Board during 2020 with the retirement of Graham Olrich and Julie Osborne in November, who were replaced by Jane Calder and Colin Sales. Jane has extensive experience in marketing, products and digital services in the financial services industry. Colin has extensive experience in banking, superannuation, government, education and disability services. Paul Spotswood and Nicolas Harrison will also retire later this year. They will be replaced by Sally Gibson and Andrew Yost, who joined the Board in August 2021.

Sally is a legal consultant with extensive corporate and regulatory expertise in investment management and regulatory issues. Andrew is a lawyer, a chartered governance professional and a chartered company secretary and has extensive experience in banking and finance.

Changes to the constitution

In June, a Special General Meeting was held to propose amendments to Summerland's constitution. The changes recommended by the Board ensure that customers are informed of any merger offer and have an opportunity to be involved in decisions that affect the future of the credit union. These changes were approved by the membership on Wednesday 23 June.

Our team

We would like to thank our team for their amazing support of our customers. As an essential service this brings additional responsibilities, particularly during times of hardship. We are proud of how they have risen to these challenges with compassion and commitment.

We've also worked hard to protect and support our team and are proud to have been awarded the Kincentric Best Employers Award again this year, which is a huge nod to achieving extraordinary results.

Industry and Market Challenges

Cyber security

With scammers continually finding new ways to defraud Australians, remote access scams and fraud are becoming more common.

The Summerland team works diligently to mitigate the risk of fraud, identify suspicious transactions, notify customers and offer support to those who have been affected.

Cybersecurity awareness training for our staff has continued; increasing our team's ability to recognise, act on and follow up on concerns about potential fraud and scam activity.

We've shared fraud and scam articles, alerts and the Australian Cyber Security Centre's (ACSC) updates to our website, social media channels, and customer e-newsletters.

We've also improved our fraud monitoring so we can inform customers more quickly of suspicious activities on their accounts.

Technology

Summerland customers are embracing digital banking in ever-increasing numbers. This change has also seen an increase in the frequency of their transactions. With the COVID-19 pandemic driving more people online, we can expect the trend towards digital banking to accelerate.

While we recognise the growing importance of the digital space, we also understand that our customers appreciate the value of our branch networks and enjoy the 'face-to-face' banking experience.

To support our customers, we are continually reviewing and improving processes to add value and efficiency to these services.

Innovations and Enhancements

Digital wallet

Late last year we launched 'digital wallet' transactions for Apple Pay and Google Pay™. Digital wallet transactions are card-less transactions using a mobile device in store.



We care for our customers and base our decisions on their wellbeing.



Opening day of the new branch at The Pines, Elanora.



The Pines branch is fresh and contemporary, with blackbutt plantation timber throughout, open plan design and welcoming spaces for customer meetings.

Digital wallets are fast becoming the most popular way to pay, particularly in the current pandemic environment. The rise in popularity is improving the way businesses receive payments, as businesses benefit from the greater speed, convenience and security that digital wallet payments offer.

Mobile app updates

This year has seen updates and enhancements to the Summerland app. Transaction histories can now be exported from the app in csv format and imported directly into desktop accounting software and office platforms. Three, six or 12-month periods can be exported and account, overdraft and credit card details can be displayed and updated.

Upgrade to Casino branch

The renovation of the Casino branch has been warmly received by customers. The Summerland team worked with community members to create a mural depicting the local surrounds and a weaving by local Indigenous weaver, Theresa Bolt, who is part of a small community collective known as Casino Wake Up Time. We are really proud of this great representation of the Casino community.

Coolangatta branch relocation

We're excited to announce that our Coolangatta branch has moved to The Pines Shopping Centre at Elanora. The last day at the Coolangatta branch was 12 August. The new, modern branch is just a few minutes up the motorway but offers better facilities, more parking, access to over 80 specialty stores and is close to public transport. The new look branch has been very well received and is generating a lot of local interest.

Sustainability

Tree planting

We are continuing to build on our Gold Partner Accreditation from the NSW Department of Planning, Industry and Environment's Sustainability Advantage Program. We're thrilled to have partnered with Landcare groups and Bangalow Koalas, working alongside local school groups and volunteers to plant 1475 native trees in the Northern Rivers.

Regional brand

As a founding partner of the regional tourism and development group, Northern Rivers Together we are working to revitalise the Northern Rivers NSW brand and share the amazing work that happens in this region with the rest of the country and the world. We want to play our part in bringing prosperity to the region creating stronger communities and nurturing successful businesses.

Vulnerable Customer Program

Summerland has developed a Vulnerable Customer Program to advocate and provide support to vulnerable customers in our community. This includes customers who don't understand finance, who have a cognitive or intellectual disability or physical limitations, customers who may be isolated, customers with language limitations or cultural barriers, our First Nations Peoples, LGBTIQAP+ communities and people who are reliant on others for care. It is also available to customers who are impacted by family and domestic violence.

Closing Statement

Moving in to the 2022 financial year our priorities are:

- Continue to support our customers and staff through the pandemic.
- Maintain our strong financial growth.
- Provide assistance to grow and support the communities in which we operate.
- Act responsively to the threat of climate change.

- Continue to grow our business responsibly and sustainably.
- Focus on improving our products and services in our branches and online.
- Further invest in developing our digital customer service channels including internet banking, email and social media.

In conclusion, we'd like to acknowledge the challenges that many Australians are experiencing during these uncertain times. We're confident that the strong foundations we have in place will help us to build a positive future.

We'd like to thank all of our Summerland customers for their support. We will continue to bring our customers competitive rates and fees and invest in quality service improvements in the year ahead. Summerland will continue to support our community by creating positive social and environmental change.

Thank you for your support.

Katrina Luckie
Chair

John Williams
CEO



Casino Wake Up Time with Theresa Bolt's weaving, weaving photography by Imbi Davidson.



*We are on track
to reach \$1 billion
in assets by
2022/2023.*

Our Performance

Financial

Our growth and financial performance for 2021 has been strong despite the COVID-19 pandemic and record low interest rates.

Our net profit after tax was a record breaking \$4.9 million and our total assets grew to \$933 million.

Our total liquidity position has remained strong reaching over 19% which has enabled us to provide some of the lowest home loan rates in our history for customers to enjoy.

A record number of new customers joined us this year resulting in strong deposit growth of \$65 million and loan growth of \$73 million.

For more information on our financial performance, please refer to the 2021 Financial Report.



Both my wife and I have been members for over 30 years. The services we have had with Summerland has always been 100%.

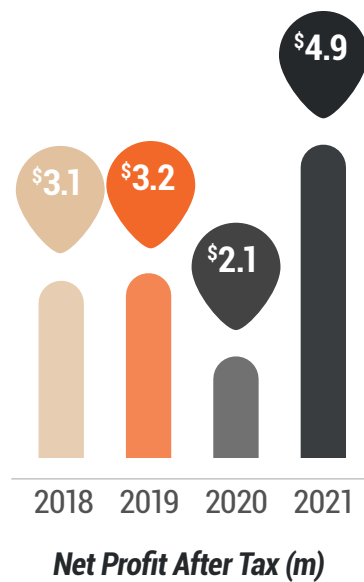
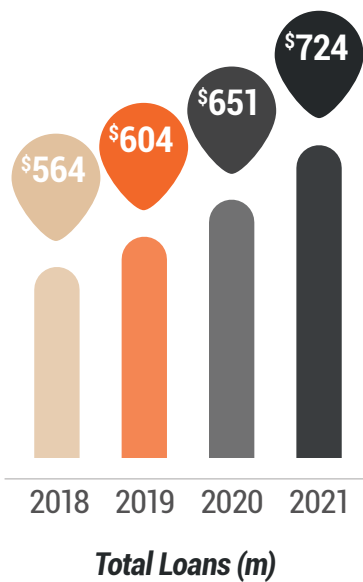
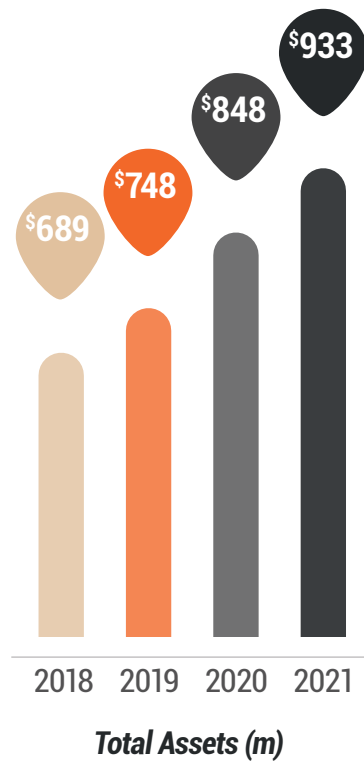
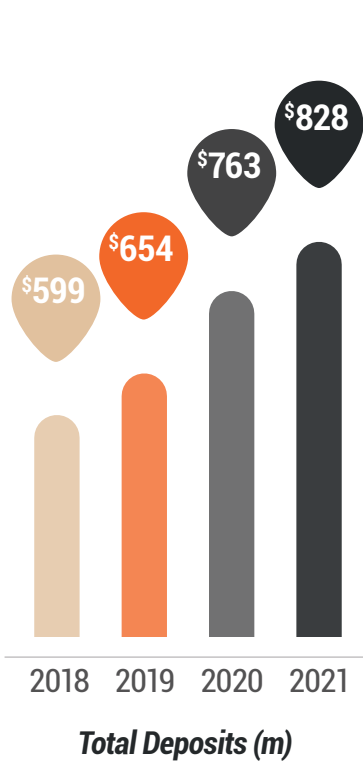
- Campbell



We had great pleasure in supporting this year's NAIDOC Art Awards at a local primary school.



Bangalow Koalas tree planting at Binna Burra June 2021.



*Great organisation,
great people and
great service.*

– Graeme

Sustainability

Our communities are an integral part of who we are as a customer owned financial institution – that’s why we are committed to supporting them.

Summerland has a strong and comprehensive environmental, social and governance position. This is embedded into our strategic direction, management and everyday activities to maximise, protect and enhance our environment and communities in ways that are ethical, transparent and with great purpose.

Our approach is driven through a desire to do the right thing and to ensure we have a framework that is relevant, comprehensive and supports our overall direction through ongoing research, planning and reporting.

We are a Gold Partner of the NSW Sustainability Advantage Program which acknowledges our outstanding environmental achievements and leadership. We are very proud that we are the first financial institution to achieve this.

We align our goals to the United Nations Sustainable Development Goals (UN SDGs) which drive our position through; Gender Equality, Decent Work and Economic Growth, Climate Action and Sustainable Cities and Communities.

OUR ACHIEVEMENTS

Gender Equality

- Selected the ‘best person for the job’ irrespective of gender.
- Achieved White Ribbon Workplace Accreditation to work towards preventing family and domestic violence.
- Developed a vulnerable persons program.



All my family and friends bank with Summerland. They were recommended to me years ago and I have recommended them to many since.

– Lewis



Major partner of the Sustainability Expo at the Lismore Lantern Parade June 2021.



Bangalow Koalas tree planting at Coffee Camp May 2021.

- Assessed sponsorship opportunities considering gender equality.
- Participated in events and activities that raised awareness about inequality in the community.
- Supported events which highlight and promote women in business.
- Assessed loan applications irrespective of the applicant's gender.
- Worked towards a gender balance on the Board and in senior management positions.

Decent Work and Economic Growth

- Encouraged staff to take one day volunteer leave to support their choice of community group or not-for-profit-organisation.
- Provided continual learning and development opportunities for staff which included 34% of our Banking Advisors completing a five-month level one lending

program and 78% of all Banking Advisors becoming level one lending competent.

- Implemented a staff engagement survey to identify opportunities for improvement in the culture of the business.
- Delivered a wellness program to provide support for staff particularly during the pandemic.
- Provided flexible work practices including working from home and job sharing.

Sustainable Cities and Communities

- Provided employment to over 100 local people.
- Participated and supported the Northern Rivers Together program, as a founding partner.
- Provided sponsorships, grants, donations and scholarships to support community.
- Improved our environmental impact and

reduced our carbon footprint.

- Delivered financial literacy and cyber security programs to community and business.
- Implemented a priority partner program for employer groups.
- Contributed to the community by participating on community boards.

Climate Action

- Implemented the bin trim program to reduce our waste.
- Planted 1475 native trees by partnering with Landcare groups and Bangalow Koalas.
- Participated in World Environment Day showing support to the protection of the environment.
- Utilised sustainable building materials in our branch renovation and relocation.
- Reduced our carbon footprint through energy, paper, air travel and car fuel.

Climate Action – our carbon footprint



Sheets of paper* per staff member

2021 – 3561
2020 – 4944
2019 – 4868
2018 – 6915



Accredited renewable energy

2021 – 3787
2020 – 3868
2019 – 4550
2018 – 4903



Litres of fuel per staff member

2021 – 51
2020 – 54
2019 – 94
2018 – 120



Air travel KMs per staff member

2021 – 52
2020 – 352
2019 – 1319
2018 – 1028

*All our paper is certified carbon neutral under the National Carbon Offset Standard Carbon Neutral program.

Our People

We would like to introduce you to some of the people who guide strategic direction and deliver on performance – our Directors, Executives and team.

Directors



Katrina Luckie
Chair

B.App Sc (Hons), MEAINZ, GAICD, FIML

Katrina is the Executive Manager of Strategy and Engagement for Social Futures, one of the largest employers and community services provider in Northern NSW. Katrina has strong skills in leadership, business and project development, research, strategy, insights and community engagement. She is the former CEO of Regional Development Australia (RDA) Northern Rivers, and former Executive Director of the Northern Rivers Regional Development Board. Katrina champions and supports management with pursuing Summerland's environmental sustainability journey.



David Bergmark

BComm, MAICD, ICAA, F Fin, MAMI

David is a founding partner and CEO of the Protecht Group and consults on a variety of market, credit, liquidity and operational risk management issues to a wide range of corporates, financial services institutions and government agencies within APAC and EMEA. He has been actively involved in audit and risk management within the banking sector since 1990.



Jane Calder

BSc (Hons), GAICD

Jane has extensive experience in marketing, products and digital services in the financial industry. Jane has most recently held the role of Chief Product and Marketing Officer, Heritage Bank. Prior to this she has held positions as a Marketing Executive at BUPA, Newcastle Permanent Building Society and BT Funds Management Australia. Jane was a Director on the Customer Owned Banking Association (COBA) Board.



Kevin Franey

FCA, CIA, CRM, RCA

Kevin is an Audit & Assurance Partner at TNR Chartered Accountants, a regional accounting firm employing over 70 personnel servicing clients across New South Wales and South East Queensland. Kevin has a comprehensive understanding of credit unions derived from the provision of external and internal audit services to financial institutions for over 30 years. Kevin brings governance, risk management and a comprehensive understanding of a range of business operations to the Board of Summerland Credit Union.



Sally Gibson

B.Ec/LLB (Hons) (USyd), LLM (Hons) (Cantab), MAICD

Sally is a legal consultant with extensive corporate and regulatory expertise. Sally was a partner of Debevoise & Plimpton LLP. She has strong understanding and experience in investment management and regulatory issues affecting the private equity and investment management sectors.



Nicolas Harrison

B.A, LL.B, FAICD, FGIA, FAMI

Nicolas is a Barrister-at-law, Company Director, and a former Director of the Customer Owned Banking Association. He is actively involved in the not-for-profit sector, being a Director and Chairman of CASPA Services Ltd. He is a former Deputy Senior Crown Prosecutor, Councillor of the NSW Law Society, Adjunct Professor at Southern Cross University, and RAAF Reserve Legal Officer.



Colin Sales

B.Com, CPA, GAICD, FGIA, F Fin, FAMI

Colin has extensive executive and non-executive director experience across a range of sectors including banking, superannuation, government, education and disability services. He is currently Chair of the Mai-Wel Group, a large disability services provider. During his executive career Colin has held the positions of Chief Executive Officer of a regional credit union, and Chief Operating Officer at a national superannuation fund.



Paul Spotswood

B.Ec, MAMI

Paul is owner and director of Spotswood Communications Pty Ltd and Sales Marketing Manager for Horizon Motorhomes. Prior to this, Paul was Executive Management at APN News and Media (now News Corp) and Publisher with Reed Business Information, Reed Elsevier Australia, publishing business-to-business information in the form of business journals, magazines, websites, e-commerce applications and other digital products including; financial products - Money Management and Super Review.



Andrew Yost

B Leg S, LLM, Grad Dip ACG, FGIA, FCG (CS, CGP)

Andrew is a lawyer, a chartered governance professional and a chartered company secretary. He has extensive experience in financial services, and spent 15 years as a senior executive at one of Australia's largest mutual banking organisations in the roles of General Counsel & Company Secretary and Chief Risk Officer. Andrew has also worked at partnership level in private legal practice and has held a number of General Counsel positions in major corporations.

Executive Team



John Williams
Chief Executive Officer

MBA, GradCertBus, AssocDipAppSc,
AssocDipEng(Elec), FACS, FIML, GAICD

John has over 30 years' experience in retail banking. He has held executive roles at Heritage Bank and has been CEO of a financial services technology company. He has also owned a financial services management consultancy business.

John believes strongly in the mutual banking model and has held Board roles in technology, payments and shared services companies supporting the customer owned banking industry. He is deeply involved in the community and is a White Ribbon Community Partner.

John has a passion for leadership and the development of people to deliver outstanding customer outcomes. He was awarded a Medal of Management Excellence by the Institute of Managers and Leaders.

John was appointed as a Director of the Customer Owned Banking Association (COBA) in 2020.



Sally-Anne Cumine
Deputy Chief Executive Officer

BBus (Acc/Fin), DipMgt

Sally-Anne has an extensive history with mutuals, working in the industry in strategic, accounting, treasury and IT roles for the past 25 years.

Sally-Anne was recognised early in her career as the 2003 Emerging Leader of the Mutual Industry.

Sally-Anne has, and continues to, share her financial expertise with local and international organisations. Having been raised and educated in the Northern Rivers, with time spent in Sydney for work and university, her passion and commitment is to seeing the continued growth and success of our region.



Donna Kildea
Chief Risk Officer

BSocSci, CAHRI

Donna joined Summerland in 1999 when she took a position on the Board of Directors and in 2003 assumed the position of Chief Operating Officer.

Donna is passionate about human resource management and takes great pleasure in supporting staff in reaching their full potential, being a mentor to many.

Donna is actively involved in the local community holding a number of key positions, including as Board Member of the Northern Rivers Conservatorium of Music and leadership positions in Toastmasters.



Summerland Executive Team.



Susie Palmer
Chief Financial Officer

BBus, BlntBus, CA

Susie joined Summerland in 2013 having moved to the Northern Rivers from Sydney. New to the banking and finance industry at the time, Susie has brought a high level of energy and breadth of experience to the organisation, particularly to the Finance and Treasury functions of Summerland.

Susie's career includes time in multinational professional services and in the wine industry. Susie's passions include team work, sport, food and wine.



Phil Creary
Head of Credit

DipCredMgt, DipAcct

Phil has more than 35 years' experience in banking, finance and other activities, with an emphasis in credit union management for the past 20 years.

Phil's skill set covers credit analysis and decision making, loan portfolio management, lending compliance, accounting and banking operations.

Phil has lived and worked in the Northern Rivers since 1988 yielding strong regional insight and community connection, including serving sporting groups on a voluntary basis.



David Ure
Chief Growth and Customer Experience Officer

DipMgt, GradCertCorpMgt, AssocDipBus

David has 35 years' experience in retail banking, the last 25 years in senior leadership positions, with a career spanning across several different financial institutions.

David brings a diverse set of skills to Summerland providing leadership to large teams in the Contact Centre, National Broker distribution and Branch Network.

David is a passionate people leader who believes that building diversity and enhancing strengths, whilst demonstrating integrity and strong set of values, is the keystone to success.

Our Team

We are honoured to be recognised by Kincentric as one of Australia's Best Employers. As an employer of choice, we work hard and have fun along the way.

Given the impact of COVID-19 this year, the Summerland Board and Executive Team are incredibly proud of the resilience of our staff. We are an ethical organisation that will

continue to support our staff in every step of their careers with opportunities for growth and development. This is a reflection of one of our core values, that people matter most.



*The very best service.
The staff are always
polite and efficient,
whether over the
counter or on the
telephone. 10 out
of 10!!*
– Glen



Summerland partnered with Tweed Landcare February 2021.



Branch team at Casino Beef Week May 2021.

Engaging our people

Our people are our greatest asset and a high performing workforce is essential to achieving our strategic goals and exceeding the needs and expectations of our customers and stakeholders.

We proudly achieved an 83% engagement score in the recent staff survey. This is a 9% increase on the 2020 survey and a 21% increase on the 2019 result. The participation rate was excellent with 93% of staff responding to the survey.

Flexible working arrangements

We offer flexible working arrangements to support our staff and understand the mutual benefits of these arrangements. Digital technologies provide greater opportunities for working from home and enable staff to stay connected and able to fulfil roles effectively.

Remuneration and benefits

We undertook a rigorous salary review process in 2020 against external benchmarking which revealed that all salaries are above award rates.

Gender equality

Summerland is a White Ribbon (WR) accredited workplace. The recent revitalisation of WR through Communicare, has provided us and our WR Committee the opportunity to build on our current processes of helping people at risk, including our elders, people with disabilities and those impacted by financial and domestic abuse.

Examples of where we've met our target for workplace gender equity are:

- The Board has a male to female split of 4:3, with a female Chair.
- Our Executive team is evenly balanced, with a 50:50 gender split.
- The Leadership Team including Branch Managers are 58% female.



I have had nothing but high commitment with Summerland for years and they always take time out to help.

– Debora



Staff
101



Staff engagement
83%



Female to male ratio
75:26

Directors' Report

Your Directors present their report on the credit union for the financial year ended 30 June 2021.

Summerland Credit Union (the credit union) is a division of Summerland Financial Services Limited, a credit union registered under the Corporations Act 2001.

Information on Directors

The following Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Katrina Luckie

B.App Sc (Hons), MEAINZ, GAICD, FIML

- Director since 2010
- Chair since 2018
- Member, Risk Advisory Committee
- Member, Governance Committee
- Member, Nominations Committee

David Bergmark

BComm, MAICD, ICAA, F Fin, MAMI

- Director since 2014
- Chair, Risk Advisory Committee

Nicolas Harrison

B.A, LL.B, FAICD, FGIA, FAMI

- Director since 2003
- Chair, Governance Committee
- Member, Audit Committee
- Chairman 2008-2018

Paul Spotswood

B.Ec, MAICD, MAMI

- Director since 2010
- Member, Risk Committee

Jane Calder

BSc (Hons), GAICD

- Director since 2020
- Member, Risk Committee
- Member, Audit Committee

Colin Sales

B.Com, CPA, GAICD, FGIA, F Fin, FAMI

- Director since 2020
- Chair, Audit Committee
- Member, Governance Committee

Kevin Franey (Appointed 7/12/20)

FCA, CIA, CRM, RCA

- Director since December 2020
- Member, Audit Committee

Sally Gibson (Appointed 2/8/21)

B.Ec/LLB (Hons) (USyd), LLM (Hons) (Cantab), MAICD

- Director since August 2021

Andrew Yost (Appointed 2/8/21)

B Leg S, LLM, Grad Dip ACG, FGIA, FCG (CS, CGP)

- Director since August 2021

Graham Olrich (Retired 6/11/20)

Dip FS, Dip FS CUD, FAICD, FAMI

- Director since 2010
- Member, Risk Advisory Committee
- Member, Audit Committee

Julie Osborne (Retired 6/11/20)

Bec, LLM, GAICD

- Director since 2020
- Chair, Audit Committee
- Member, Risk Advisory Committee

Donna Kildea

BSocSci., CAHRI

- Company Secretary

Directors' meeting attendance

Director	Board of Directors		Audit Committee		Risk Committee		Governance Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
Katrina Luckie	8	8			4	3	4	4
Nicolas Harrison	8	8	4	3			4	4
David Bergmark	8	8			4	4		
Paul Spotswood	8	7	1	1	3	3	2	1
Jane Calder	8	8	3	3	3	3		
Colin Sales	8	8	4	4			2	2
Kevin Franey (Appointed 7/12/20)	4	4	3	2				
Graham Olrich (Retired 6/11/20)	4	4	1	1	1	1		
Julie Osborne (Retired 6/11/20)	4	4	1	1	1	1		

Directors' benefits

No Director has received or become entitled to receive, during or since the end of the financial year, a benefit because of a contract made by the credit union, a subsidiary, or a related body corporate with a Director, a firm of which a Director is a member or an entity in which a Director has a substantial financial interest, other than that disclosed in Note 7 of the Financial Report.

Indemnifying officer or auditor

Insurance premiums have been paid to insure each of the Directors and officers of the credit union against any costs and expenses incurred by them in defending any legal proceeding arising out of their conduct while acting in their capacity as an officer of the credit union. In accordance with normal commercial practice, disclosure of the premium amount and the nature of the insured liabilities is prohibited by a confidentiality clause in the contract. No insurance cover has been provided for the benefit of the auditors of the credit union.

Principal activities

The principal activities of the credit union during the year were the provision of retail financial services to customers in the form of taking deposits and giving financial accommodation as prescribed by the Constitution.

No significant changes in the nature of these activities occurred during the year.

Operating results

The net profit of the credit union for the year after providing for income tax was \$4.86m (2020: \$2.10m).

Dividends

No dividends have been paid or declared since the end of the financial year and no dividends have been recommended or provided for by the Directors of the credit union.

Review of operations

The credit union's operations, providing financial services to customers, was impacted during the year with the continuing global pandemic (COVID-19) which began early in the 2020 calendar year. The pandemic has resulted in significant health, societal and economic impacts in our region, and more broadly affected the population nationally and across the world. The impact of COVID-19 is expected to continue to be felt into the future. As a result of the difficult and uncertain environment there have been many responses made by the Government and the credit union to assist both customers and businesses to navigate through these unexpected and uncertain times over the last 15 months.

Throughout the year, customers, both personal and business, have been supported by a number of relief measures put in place by the Government to help with employment, income support and specific business guarantee support to keep them open and operating. In June 2021, the credit union has again offered customers access to loan repayment deferral options to help manage their financial situation as well as a hardship assistance program.

The general business operations of the credit union were again impacted during the year by COVID-19. The credit union initially implemented its Pandemic Crisis Plan back in March 2020. This plan was eased in August 2020 however was implemented again later in the year due to state and national lockdowns. When the plan was active, the credit union implemented changes to its operations, which included:

- Almost all back-office staff worked remotely and/or part thereof.
- All branches remained open and available for customers, with the addition of new hygiene measures.
- Resourcing in our contact centre was lifted to accommodate higher levels of customer enquiry over the phone and internet.

During these uncertain times of COVID-19 the credit union has remained focused on ensuring the business remains sustainable and meets the needs of customers. There has been continued strong loan demand against a backdrop of record low interest rates, and a strong liquidity position has been maintained – well in excess of internal targets and regulatory limits. Although the effects of COVID-19 are still real, provisions for impairment have reduced in the year as a result of slight improvements in operating conditions and economic outlooks compared to those that existed in June 2020. The environment does remain uncertain and there is a great deal of caution still evident as the nation and the world navigates the ongoing impacts of a pandemic and how a vaccinated world will operate.

Significant changes in state of affairs

Except for those outlined under the review of operations section above, there were no other significant changes in the state of the affairs of the credit union during the year.

Events occurring after balance date

Apart from the continuing lockdowns and the uncertainties surrounding the ongoing economic impact of COVID-19 on customers, businesses and the government, there are no other matters or circumstances arising since the year end which significantly affected or may significantly affect the operations, the results of these operations or state of affairs of the credit union in subsequent financial years.

Environmental regulations

All activities have been undertaken in compliance with environmental regulations that apply to credit unions.

Likely developments, business strategies and prospects

No matter, circumstance or likely development has arisen since the end of the financial year that has significantly affected or may significantly affect:

- (i) The operations of the credit union;
- (ii) The results of those operations; or
- (iii) The state of affairs of the credit union

in the financial years subsequent to this financial year. There are no likely developments in the entity's operations in the future financial years.

Rounding

The amounts contained in this financial report have been rounded to the nearest one thousand dollars in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The credit union is permitted to round to the nearest one thousand (\$'000) for all amounts except prescribed disclosures that are shown in whole dollars.

Prudential disclosures

Full disclosure of the regulatory capital and the remuneration disclosure are available on the credit union website.
<https://summerland.com.au/governance>

Auditor's independence

The auditor has provided the following declaration of independence to the Board as prescribed by the Corporations Act 2001. This report is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

Katrina Luckie
Chair

Colin Sales
Chair Audit Committee


Lismore 29 September 2021

Auditor's Independence Declaration

To the Directors of Summerland Financial Services Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Summerland Financial Services Limited for the year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



Claire Scott
Partner – Audit & Assurance

Sydney, 29 September 2021

#6096556v2

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Statement of Profit or Loss and other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2021

	Note	2021	2020
		\$'000	\$'000
REVENUE			
Interest revenue	2	24,582	26,172
Interest expense	2	(4,815)	(8,819)
NET INTEREST REVENUE		19,767	17,353
Non-interest revenue	3	4,012	4,160
EXPENSES			
Impairment benefit/(expense)	12	334	(704)
Employee benefits expense	4	(8,763)	(9,083)
Occupancy expense	4	(353)	(469)
Depreciation and amortisation expense	4	(1,299)	(1,499)
Information technology expenses	4	(2,345)	(2,115)
Fees and Commissions	4	(2,685)	(2,363)
Other expenses	4	(2,263)	(2,344)
Total expenses		(17,374)	(18,577)
PROFIT BEFORE INCOME TAX		6,405	2,936
Income tax expense	5	(1,542)	(839)
PROFIT FOR THE YEAR NET OF TAX		4,863	2,097
OTHER COMPREHENSIVE INCOME NET OF TAX			
<u>Items that may be reclassified to profit and loss</u>			
Gain/(Loss) on cash flow hedges taken to equity		64	135
<u>Items that will not be reclassified to profit and loss</u>			
Movement in fair value of land and buildings		148	62
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		212	197
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		5,075	2,294
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO MEMBERS OF THE CREDIT UNION		5,075	2,294

This statement should be read in conjunction with the notes to the financial statements.

Statement of Financial Position

AS AT 30 JUNE 2021

	Note	2021	2020
		\$'000	\$'000
ASSETS			
Cash and cash equivalents	8	30,347	38,006
Financial assets at amortised cost	11	156,147	137,672
Trade and other receivables	9	6,757	5,355
Other assets	10	2,728	1,415
Loans and advances	12	723,841	651,195
Financial assets at fair value through other comprehensive income		2	2
Derivatives	13	4	(251)
Investment property	15	5,644	5,502
Property, plant and equipment	14	5,131	5,144
Right-of use assets	17	1,008	1,700
Deferred tax assets	5	1,031	1,130
Intangible assets	16	375	711
TOTAL ASSETS		933,015	847,581
LIABILITIES			
Deposits	18	828,352	762,555
Trade and other payables	19	9,911	7,992
Borrowings	21	22,488	9,479
Current tax liability	5	452	160
Deferred tax liabilities	5	863	801
Lease liabilities	17	866	1,540
Provisions	20	1,147	1,193
TOTAL LIABILITIES		864,079	783,720
NET ASSETS		68,936	63,861
MEMBERS EQUITY			
Redeemable preference share capital account	22	531	524
Reserves	23	7,447	7,070
Retained earnings		60,958	56,267
TOTAL MEMBERS EQUITY		68,936	63,861

This statement should be read in conjunction with the notes to the financial statements.

Statement of Changes in Member Equity

FOR THE YEAR ENDED 30 JUNE 2021

	Redeemable Preference Share Capital Account	General Reserve	Capital Profits Reserve	Hedging Reserve	Reserve for Credit Losses	Asset Revaluation Reserve	Retained Earnings	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
BALANCE AT 1 JULY 2019	516	1,376	860	(193)	1,847	2,754	54,407	61,567
Profit for the year	-	-	-	-	-	-	2,097	2,097
Other comprehensive income net of tax	-	-	-	135	-	62	-	197
Transfers to / from retained earnings:								
- Redeemable preference share account	8	-	-	-	-	-	(8)	-
- Reserve for credit losses	-	-	-	-	229	-	(229)	-
BALANCE AT 30 JUNE 2020	524	1,376	860	(58)	2,076	2,816	56,267	63,861
BALANCE AT 1 JULY 2020	524	1,376	860	(58)	2,076	2,816	56,267	63,861
Profit for the year	-	-	-	-	-	-	4,863	4,863
Other comprehensive income net of tax	-	-	-	64	-	148	-	212
Transfers to / from retained earnings:								
- Redeemable preference share account	7	-	-	-	-	-	(7)	-
- Reserve for credit losses	-	-	-	-	165	-	(165)	-
BALANCE AT 30 JUNE 2021	531	1,376	860	6	2,241	2,964	60,958	68,936

This statement should be read in conjunction with the notes to the financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2021

	Note	2021	2020
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		24,795	26,102
Other income		2,667	7,486
Interest paid		(5,579)	(9,728)
Payments to suppliers and employees		(15,522)	(26,114)
Movement in operating assets and liabilities			
Net movement in liquid investment balances		(18,475)	(36,977)
Net movement in loans		(72,407)	(48,676)
Net movement in deposits		65,797	108,719
		(25,085)	23,066
Income taxes paid		(1,089)	(717)
Net cash used in operating activities	32 (c)	(19,813)	20,095
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for property, plant and equipment		(454)	(1,157)
Payment for investment property		(12)	-
Payment for intangibles		(94)	(588)
Increase in other liabilities		148	59
Net cash used in investing activities		(412)	(1,686)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayments) / proceeds from borrowings		13,009	(3,781)
Lease principal payments		(423)	(160)
Interest paid		(20)	(19)
Net cash provided by financing activities		12,566	(3,960)
Net increase / (decrease) in cash and cash equivalents held		(7,659)	14,449
Cash and cash equivalents at the beginning of the financial year		38,006	23,557
Cash and cash equivalents at the end of the financial year	32 (a)	30,347	38,006

This statement should be read in conjunction with the notes to the financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2021

Note 1

Statement of Significant Accounting Policies

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

Summerland Financial Services Limited is a public credit union limited by shares, incorporated and domiciled in Australia. The nature of the credit union's operations and principal activities are disclosed in the Directors' Report. The credit union is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Basis of preparation

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes information comply with International Financial Reporting Standards.

Except for cash flow information, this financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of land and buildings, and certain financial assets and financial liabilities for which the fair value basis of accounting has been applied. The statement of financial position has been prepared in order of liquidity.

The credit union is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

The financial report was authorised for issue on 29 September 2021 by the Board of Directors.

Changes in significant accounting policies – New standards applicable in current year

The credit union has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2020:

International Financial Reporting Standards Committee (IFRIC) – Software-as-a-Service (SaaS) arrangements

The International Financial Reporting Standards Interpretations Committee (IFRIC) has issued two final agenda decisions which impact SaaS arrangements:

Customer's right to receive access to the supplier's software hosted on the cloud (March 2019) – this decision considers whether a customer receives a software asset at the contract commencement date or a service over the contract term.

Configuration or customisation costs in a cloud computing arrangement (April 2021) – this decision discusses whether configuration or customisation expenditure relating to SaaS arrangements can be recognised as an intangible asset and if not, over what time period the expenditure is expensed.

The credit union's accounting policy has historically been to capitalise all costs related to SaaS arrangements as intangible assets in the Statement of Financial Position. The adoption of the above agenda decisions has resulted in a reclassification of these intangible assets to either a prepaid asset in the Statement of Financial Position and/or recognition as an expense in the Statement of Profit or Loss and other Comprehensive Income, impacting the current period presented. The new accounting policy is presented in Note 10 and Note 16.

IMPACT OF THE ADOPTION OF IFRIC SAAS TREATMENT

IFRIC SaaS treatment has been adopted effective 1 July 2020. Historical financial information has not been restated to account for the impact of the change in standard as it was determined to have an immaterial impact on the credit union.

Significant accounting policies

The following is a summary of the material accounting policies adopted by the credit union in the preparation of the financial report. Except where stated, the accounting policies have been consistently applied.

(a) Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management base its judgements, estimates and assumption on historical experience and on other factors, including reasonable expectations of future events by way of trend analysis and economic data sourced both externally and within the credit union. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

KEY ESTIMATES

Impairment:	refer to Note 12
Property:	refer to Note 14
Investment property:	refer to Note 15
Intangibles:	refer to Note 16

CORONAVIRUS (COVID-19)

Judgement has been exercised in considering the impacts that COVID-19 has had, or may have, on the credit union based on known information. This consideration extends to the nature of the products and services offered, customers, staffing and geographic regions in which the credit union operates. Other than as addressed in specific notes (above), there does not currently appear to be any significant impact upon the financial statements nor any significant uncertainties with respect to events or conditions which may impact the credit union unfavourably as at the reporting date. However, the current ongoing nature of COVID-19 may impact the estimation uncertainty due to the extent and duration of actions by governments, business and consumers to containing the spread, vaccination rates and economic impact of the virus.

(b) Comparative figures

Where required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation in the current year.

(c) Goods and services tax (GST)

As a financial institution the credit union is input taxed on all income except other income from commissions and some fees. An input taxed supply is not subject to GST collection, and similarly the GST paid on purchases cannot be recovered. As some income is charged GST, the GST on purchases are generally recovered on a proportionate basis. In addition, certain prescribed purchases are subject to reduced Input Tax Credits, of which 75% of the GST paid is recoverable.

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables are stated with the amount of GST included where GST is applicable. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(d) REPO securitisation trust consolidation

The credit union has a Trust which holds rights to a portfolio of mortgage secured loans to enable the credit union to secure funds from the Reserve Bank of Australia (RBA) if required to meet emergency liquidity requirements. The credit union continues to manage these loans and receives all residual benefits from the trust and bears all losses should they arise. Accordingly,

The Trust meets the definition of a controlled entity; and,

As prescribed under the accounting standards, since the credit union has not transferred all risks and rewards to the Trust, the assigned loans are retained on the books of the credit union and are not de-recognised.

The credit union has elected to present one set of financial statements to represent both the credit union as an individual credit union and consolidated credit union on the basis that the impact of consolidation is not material to the credit union.

(e) New or emerging Accounting Standards not yet mandatory

There are currently no new or emerging Accounting Standards amendments applicable to the credit union.

2021

2020

\$'000

\$'000

Note 2**Interest Revenue and Interest Expense**

INTEREST REVENUE

Cash and cash equivalents	9	60
Financial assets at amortised cost	1,438	2,213
Loans and advances	23,125	23,783
Derivatives	10	116
TOTAL INTEREST REVENUE	24,582	26,172

INTEREST EXPENSE

Deposits	3,996	8,291
Borrowings	588	217
Derivatives	211	292
Leases	20	19
TOTAL INTEREST EXPENSE	4,815	8,819

Note 3**Revenue**

INTEREST REVENUE	24,582	26,172
NON-INTEREST REVENUE		
Fees and commissions		
- fee income on loans - other than loan origination fees	967	1,122
- fee income from customer deposits	788	792
- other fee income	553	556
- insurance commissions	143	196
- other commissions	575	616
	3,026	3,282
Bad debts recovered	21	18
Income from property (rent)	545	511
Fair value increase - investment property	201	-
Profit on sale of assets	2	52
Other	217	297
TOTAL NON-INTEREST REVENUE	4,012	4,160
TOTAL REVENUE	28,594	30,332

Recognition and Measurement

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the credit union and the revenue can be reliably measured. The following specific criteria must also be met before revenue is recognised.

LOAN INTEREST REVENUE

Loan interest is calculated on the daily loan balance outstanding and is charged in arrears to the loan accounts on the last day of each month.

NON-ACCRUAL LOAN INTEREST

While still legally recoverable, loan interest is not brought to account if a loan is classified as non-accrual or generally if a loan has been transferred to a debt collection agency or a judgement has been obtained. However accrued interest may be recovered as part of the recovery of the debt.

INVESTMENT INTEREST REVENUE

Investment interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

FEES AND COMMISSIONS REVENUE

Fees and commissions are brought to account as non-interest income on an accrual basis once a right to receive consideration has been attained (i.e. when the service is provided). The credit union's performance obligation is to provide ongoing services related to account maintenance and customer related services, a service from which the customer benefits from as it is provided and is recognised over-time. Due to the nature of the services, they are recognised as a series of services comprising a single performance obligation. Unless otherwise discounted and included in the initial measurement of a loan, fees are charged at their stand-alone selling price and recognised as non-interest revenue in the period for which services are delivered.

LOAN ORIGINATION FEES REVENUE

Loan establishment fees and discounts are initially deferred as part of the loan balance and are brought to account as non-interest revenue over the expected life of the loan. The expected life of loans is reviewed annually and adjusted to reflect changes in trends in the actual life of loans. These adjustments may accelerate or decelerate the amortisation rate of the deferred origination fee revenue.

TRANSACTION COSTS

Transaction costs are expenses which are direct and incremental to the establishment of the loan. These costs are initially deferred as part of the loan balance and are brought to account as a reduction to income over the expected life of the loan and included as part of non-interest revenue.

Note 4**Profit Before Income Tax Expense**

Profit before income tax expense has been determined after:

EXPENSES

Interest expense		4,815	8,819
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NON-INTEREST EXPENSES

Employee benefit expenses

- net movement in provisions for annual leave		(31)	115
- net movement in provisions for long service leave		(85)	77
- other employee expenses		8,879	8,891

		<u>8,763</u>	<u>9,083</u>
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IMPAIRMENT OF ASSETS

12 (c)

		(334)	704
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Depreciation and Amortisation expense

Depreciation expense

- buildings		85	190
- plant and equipment		472	342
- right-of-use assets		441	481

Amortisation expense

- software		144	272
- leasehold improvements		157	214

		<u>1,299</u>	<u>1,499</u>
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OTHER EXPENSES

Fees and commissions		2,685	2,363
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General and administration expenses		278	287
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IT expenses		2,345	2,115
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Loss on sale of assets		-	10
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Occupancy expenses		353	469
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Other operating expenses		1,985	2,047
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		<u>7,646</u>	<u>7,291</u>
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TOTAL NON-INTEREST EXPENSES

		<u>17,374</u>	<u>18,577</u>
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TOTAL EXPENSES

		<u>22,189</u>	<u>27,396</u>
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Note 5

Income Tax

INCOME TAX EXPENSE		
Prima facie tax payable on profit at 26% (2020: 27.5%)	1,665	807
ADJUST FOR TAX EFFECT OF:		
Adjustment for previous year	(123)	32
	1,542	839
Income tax expense attributable to the entity		
Applicable weighted average effective tax rate	26%	27.5%
THE COMPONENTS OF INCOME TAX EXPENSE COMPRISE		
Current tax	1,483	774
Deferred tax	59	65
	1,542	839
CURRENT AND DEFERRED TAX RECOGNISED DIRECTLY IN EQUITY		
Aggregate current and deferred tax arising during the reporting period and not recognised in profit and loss but directly debited or credited to equity:		
FRANKING CREDITS		
Franking credits held by the Credit Union after adjusting for franking credits that will arise from the payment of income tax payable as at the end of the financial year is:	20,715	19,415
CURRENT TAX		
Current income tax (receivable) / payable	452	160
DEFERRED TAX ASSETS		
Deferred tax assets comprise temporary differences attributable to:		
AMOUNTS RECOGNISED IN PROFIT AND LOSS		
Plant and equipment	167	105
Provision for impairment	293	404
Provision for employee benefits	448	478
Accrued expenses	166	165
Deferred loan fee asset	(46)	(31)
AASB 16 Adjustments	3	9
	1,031	1,130
AMOUNTS RECOGNISED DIRECTLY IN EQUITY		
Hedge reserve	(6)	58
Total deferred tax assets	1,025	1,188

	2021	2020
	\$'000	\$'000
DEFERRED TAX LIABILITIES		
Deferred tax liabilities comprise temporary differences attributable to:		
AMOUNTS RECOGNISED IN PROFIT AND LOSS		
Investment properties	43	-
AMOUNTS RECOGNISED DIRECTLY IN EQUITY		
Land and buildings	820	801
Total deferred tax liabilities	863	801

Recognition and Measurement

CURRENT TAX EXPENSE

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or substantially enacted at balance date.

DEFERRED TAX

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the credit union will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Note 6

Remuneration of Auditors

Remuneration of the auditor for:		
Auditing of the financial report	79,600	77,300
Other services		
- taxation services	17,500	27,500
- compliance audits	27,900	36,100
	125,000	140,900

Note 7

Related Party Transactions

(a) Key management personnel

Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the credit union, directly or indirectly, including any Director (whether executive or otherwise) of that entity. Control is the power to govern the financial and operating policies of an entity to obtain benefits from its activities.

KMP has been taken to comprise the Directors and the six executives responsible for the day-to-day financial and operational management of the credit union.

The names of the Directors of the credit union who have held office during the financial year are:

- Katrina Luckie
- Nicolas Harrison
- David Bergmark
- Paul Spotswood
- Jane Calder
- Colin Sales
- Kevin Franey (Appointed 7/12/2020)
- Julie Osborne (Retired 6/11/2020)
- Graham Olrich (Retired 6/11/2020)

(b) Remuneration of key management personnel

The aggregate compensation of KMP during the year comprising amounts paid or payable or provided for was as follows:

Short-term employee benefits	1,873	2,609
Post-employment benefits	154	160
Other long-term benefits	47	37
	2,074	2,806

Remuneration shown as short-term benefits means (where applicable) wages, salaries, paid annual leave and paid sick leave, short-term performance incentives, value of fringe benefits received, but excludes out of pocket expense reimbursements.

(c) Related parties

The other related parties include close family members of KMP and entities that are controlled or jointly controlled by those KMP, individually or collectively with their close family members.

(d) Loans to key management personnel and other related parties

The credit union's policy for lending to Directors is that all loans are approved and deposits accepted on the same terms and conditions that applied to customers for each class of loan or deposit. KMP who are not Directors receive a concessional rate of interest on their loans and facilities. These benefits, where subject to Fringe Benefits Tax, are included in the remuneration in Note 7(b) above.

There are no loans that are impaired in relation to the loan balances with KMP or with their close family relatives.

There are no benefits or concessional terms and conditions applicable to the close family members of the KMP.

	2021	2020
	\$'000	\$'000
	2,338	544
The aggregate value of loans to KMP and other related parties as at balance date amounted to		
The total value of revolving credit facilities to KMP and other related parties as at balance date amounted to	535	92
Less amounts drawn down and included above	(38)	(26)
Net balance available	497	66
During the year the aggregate value of loans and revolving credit facilities approved and/or disbursed to KMP and other related parties amounted to	93	88
Interest and other revenue earned on loans and revolving credit facilities to KMP and other related parties amounted to	3	15

(e) Other transactions with key management personnel and other related parties

KMP and other related parties have received interest on deposits with the credit union during the financial year. Interest has been paid on terms and conditions no more favourable than those available on similar transactions to customers of the credit union.

Total value of term and savings deposits from KMP and other related parties	1,103	711
Total interest paid on deposits to KMP and other related parties	-	8

The credit union's policy for receiving deposits from other related parties and in respect of other related party transactions, is that all transactions are approved and deposits accepted on the same terms and conditions that apply to customers for each type of deposit.

There are existing service contracts where KMP or their close family members are an interested party. These contracts see services being provided at arm's length on the same terms and conditions as other contracted services to the credit union. The total value of services provided by associated entities of KMP (Protecht Group & TNR) is \$240k (2020: \$134k). The total value of services provided for membership to COBA was \$132k (2020: \$132k).

Note 8

Cash and Cash Equivalents

Cash on hand	1,575	1,527
Deposits at call	28,772	36,479
	30,347	38,006

Recognition and Measurement

Cash and cash equivalents include cash on hand and unrestricted short term highly liquid balances held in Authorised Deposit-taking Institutions (ADIs) with maturity less than three months or at call. They are carried at amortised cost which is equal to fair value in the statement of financial position.

The effective interest rate on short-term bank deposits was 0.49% (2020: 0.87%).

2021

2020

\$'000

\$'000

Note 9

Trade and Other Receivables

Accrued interest	416	629
Other receivables	6,341	4,726
	<u>6,757</u>	<u>5,355</u>

Recognition and Measurement

Trade and other receivables are recognised and accounted for as financial assets classified at amortised cost. Refer to Note 27 for recognition and measurement policies.

Note 10

Other Assets

Prepayments	2,420	1,415
Prepayments - SaaS	308	-
	<u>2,728</u>	<u>1,415</u>

Recognition and Measurement

SOFTWARE-AS-A-SERVICE (SAAS) ARRANGEMENTS

SaaS arrangements are service contracts providing the credit union with the right to access the cloud provider's application software over the contract period. As such the credit union does not receive a software intangible asset at the contract commencement date. Costs are to be recognised as an operating expense over the term of the service contract creating a prepayment including fees for use of application software and customisation costs. Costs to be recognised as an operating expense as the service is received include configuration costs, data conversion and migration costs, testing costs and training costs.

Costs incurred for the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of and recognition criteria for an intangible asset are recognised as intangible software assets. Refer to Note 16 for an outline of accounting for intangible assets.

Note 11

Financial Assets at Amortised Cost

Deposits with ADIs	<u>156,147</u>	<u>137,672</u>
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Recognition and Measurement

FINANCIAL ASSETS AT AMORTISED COST

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The credit union's cash and cash equivalents, and trade receivables fall into this category of financial instruments as well as deposits with ADIs. Included as a deposit with ADIs is \$1.6m which represents restricted cash relating to the Repo Securitisation Trust.

2021

2020

\$'000

\$'000

Note 12

Loans and Advances

Term loans	716,614	643,917
Overdrafts and revolving credit	8,816	9,105
Gross loans and advances	725,430	653,023
Less: Unamortised loan origination fees	(463)	(360)
	724,967	652,663
Less: Provision for impaired loans	(1,126)	(1,468)
Net loans and advances	723,841	651,195

Recognition and Measurement

Loans and advances captured in the statement of financial position include:

- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans and advances were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market and that the credit union did not intend to sell immediately or in the near term.

Loans and advances were initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(a) Credit quality – Security held against loans

Secured by mortgage over real estate	714,532	642,018
Partly secured by goods mortgage	5,014	5,027
Cash secured	1,260	1,411
Unsecured	4,624	4,567
Gross loans and advances	725,430	653,023

It is not practicable to value all collateral as at the reporting date due to the variety of assets and condition. A breakdown of the quality of the residential mortgage security on a portfolio basis is as follows.

Security held as mortgage against real estate is on the basis of:

- | | | |
|---|---------|---------|
| - Loan to valuation ratio of less than or equal to 80% | 614,287 | 562,676 |
| - Loan to valuation ratio of more than 80% but mortgage insured | 87,877 | 69,473 |
| - Loan to valuation ratio of more than 80% and not mortgage insured | 12,368 | 9,869 |

Total	714,532	642,018
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(b) Concentration of loans

The values discussed below include on statement of financial position values and off statement of financial position undrawn facilities as described in Note 24. There are no loans to individual or related groups of customers which exceed 10% of reserves in aggregate.

(i) Geographical concentrations

2021	Housing	Personal	Business	Total
NSW – Northern Rivers	568,663	16,480	42,196	627,339
NSW – Other regions	101,071	1,124	2,373	104,568
Other states, territories & jurisdictions	78,686	1,751	1,730	82,167
Total	748,420	19,355	46,299	814,074

2020	Housing	Personal	Business	Total
NSW – Northern Rivers	527,799	16,900	42,889	587,588
NSW – Other regions	80,512	1,016	1,717	83,245
Other states, territories & jurisdictions	63,952	1,855	1,779	67,586
Total	672,263	19,771	46,385	738,419

	2021	2020
	\$'000	\$'000

(ii) Concentration of loans by purpose

Loans to customers (natural persons and corporate borrowers)

- Residential loans and facilities	748,420	672,263
- Personal loans and facilities	19,355	19,771
- Business loans and facilities	46,299	46,385
Total	814,074	738,419

(c) Provision on impaired loans

(i) Amounts arising from Expected Credit Losses (ECL)

The loss allowance as of the year end by class of exposure / asset are summarised in the table below.

2021	Gross Carrying Value	ECL Allowance	Carrying Value
Loans to customers			
- Residential loans and facilities	748,420	(397)	748,023
- Personal loans and facilities	19,355	(100)	19,255
- Business loans and facilities	46,299	(629)	45,670
Total	814,074	(1,126)	812,948

2020	Gross Carrying Value	ECL Allowance	Carrying Value
Loans to customers			
- Residential loans and facilities	672,263	(478)	671,785
- Personal loans and facilities	19,771	(121)	19,650
- Business loans and facilities	46,385	(869)	45,516
Total	738,419	(1,468)	736,951

	Stage 1 12 month ECL 2021	Stage 2 Lifetime ECL 2021	Stage 3 Lifetime ECL 2021	Total 2021
Loans to customers				
- Residential loans and facilities	741,123	3,921	3,376	748,420
- Personal loans and facilities	19,245	34	76	19,355
- Business loans and facilities	46,192	107	-	46,299
	806,560	4,062	3,452	814,074
Loss allowance	(1,103)	(10)	(13)	(1,126)
Carrying amount	805,457	4,052	3,439	812,948

	Stage 1 12 month ECL 2020	Stage 2 Lifetime ECL 2020	Stage 3 Lifetime ECL 2020	Total 2020
Loans to customers				
- Residential loans and facilities	649,892	19,282	3,089	672,263
- Personal loans and facilities	19,588	113	70	19,771
- Business loans and facilities	44,203	2,032	150	46,385
	713,683	21,427	3,309	738,419
Loss allowance	(1,306)	(135)	(27)	(1,468)
Carrying amount	712,377	21,292	3,282	736,951

The reconciliations from the opening to the closing balance of the allowance for impairment by class of financial instrument is shown in the table below.

	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Loans to customers				
Balance at 1 July 2019	728	46	7	781
Changes in the loss allowance				
- Transfer to stage 1	-	-	-	-
- Transfer to stage 2	-	81	(1)	80
- Transfer to stage 3	-	(2)	21	19
Net movement due to change in credit risk	-	79	20	99
Net movement in individual provisions	581	20	-	601
Write offs	(3)	(10)	-	(13)
Balance at 30 June 2020	1,306	135	27	1,468
Changes in the loss allowance				
- Transfer to stage 1	-	-	-	-
- Transfer to stage 2	-	(124)	(1)	(125)
- Transfer to stage 3	-	(2)	(13)	(15)
Net movement due to change in credit risk	-	(126)	(14)	(140)
Net movement in individual provisions	(199)	1	-	(198)
Write offs	(4)	-	-	(4)
Balance at 30 June 2021	1,103	10	13	1,126
Amounts processed directly to Profit and Loss:				
- Write off of overdrawn accounts (informal credit facilities) not within the ECL framework			(3)	(4)
- Recoveries of amounts previously written off			21	18
Profit increase / (decrease)			18	14

The expense recognised as impairment expense in the profit and loss takes into account the movement in ECL provision for the year.

(d) General reserve for credit losses

This reserve records an amount previously set aside as an additional specific provision and is maintained to comply with the standards set down by the Australian Prudential Regulation Authority (APRA) which under Australian Accounting Standards is excessive.

Balance at beginning of the financial year	2,076	1,847
Add: increase (decrease) transferred from retained earnings	165	229
Balance at end of the financial year	2,241	2,076

Recognition and Measurement

The impact and duration of COVID-19 on the national and global economy, and how government, businesses and consumers respond, continues to be uncertain. This said the outlook in 2021 is quite different to that which existed a year ago, particularly with the rollout of the vaccine program, and much stronger than expected property market conditions. The basis for Expected Credit Loss (ECL) modelling in the current year (third year of application) did not significantly change – the model continues to incorporate a considerable degree of judgement in its application and assessment of exposures during different economic cycles.

MEASUREMENT OF ECL

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second and third category. Measurement of the expected credit losses is determined by a probability weighted estimate of credit losses over the expected life of the financial instrument. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the credit union in accordance with the contract and the cash flows that the credit union expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cashflows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the credit union if the commitment is drawn down and the cash flows that the credit union expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the credit union expects to recover.

The credit union has elected to use the following segments when assessing credit risk for Stages 1 and 2 of the impairment model:

- Residential owner-occupied mortgages, including owner-occupied overdrafts;
- Residential investment mortgages, including investment overdrafts;
- Commercial loans, including commercial overdrafts; and
- Personal loans, including credit cards and personal overdraft facilities.

The approach to determining the ECL includes forward-looking information. The credit union has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio segment. Consideration has also been given to the level of undue cost and effort involved in utilising complex statistical models, which is not considered appropriate for the size and complexity of the portfolio.

The credit union incorporates forward-looking information into its ECL methodology. Considerations include the impact of future changes in unemployment rates, property prices, regulatory change and external market risk factors. Based on review by the credit union's Board and Board Audit Committee and consideration of external information, the credit union formulates a 'outlook' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by the Reserve Bank of Australia and other bodies.

The credit union considers the ECL to represent its best estimate of the possible outcomes and is aligned with information used by the credit union for other purposes such as strategic planning and budgeting.

CREDIT RISK

The provision is reflective of the credit risk in the credit union's loan portfolio which includes risks stemming from the current COVID-19 environment.

Total impairment provision decreased year-on-year by \$342K to \$1,126K at June 2021.

This decrease recognises particularly the improvement in current and expected future economic outcomes compared to what existed or was expected in June 2020. The impairment was estimated on the facts and circumstances existing at 30 June 2021.

The model overlays forward-looking economic outlooks on the loan portfolio. As a result of the improvement in these outlooks, the provisioning at each Stage decreased in the 2021 year.

The credit union is not required to develop an extensive list of factors in defining a 'significant increase in credit risk'. In assessing significant increases in credit risk where a loan or group of loans must move to Stage 2 the following factors have been considered in the credit union's current model:

- Loans 30 days or more past due;
- Loans with more than 2 instances of arrears 30 days or more in the previous 12 months; and
- Loans with approved hardship or modified terms.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the credit union considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the credit union's historical experience and expert judgement, relevant external factors and including forward-looking information.

GENERAL RESERVE FOR CREDIT LOSSES

In addition to the provision for impairment, a general reserve for credit losses is maintained to cover risks inherent in the loan portfolio. Movements in the general reserve for credit losses are recognised as an appropriation of retained earnings.

RESTRUCTURED LOANS

Restructured loans are loans which are subject to renegotiated repayment terms, generally in the process of extending hardship assistance to our customers. Arrears are not diminished and interest continues to accrue to income. Each restructured loan is retained at the full arrears position until the restructured repayment is maintained for 6 months. These loans can then be reinstated as a performing loan, subject to the loan being on the same risk terms as a new loan for its class.

BAD DEBTS

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. On secured loans the write-off takes place on ultimate realisation of collateral value, or following claim on any mortgage insurance. This is generally the case when the credit union determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the credit union's procedures for recovery of amounts due.

Note 13

Derivatives

Asset

Interest rate swap contracts – cash flow hedge	4	(251)
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Recognition and Measurement

The credit union transacts interest rate swaps to manage interest rate risk. These are recognised at fair value at the date of the contract and are reported at fair value at subsequent reporting dates. Resulting gains or loss are recognised in profit or loss immediately unless the swap is determined to be an effective hedging instrument. Where the hedge is effective, fair value losses and gains are recognised in other comprehensive income. Interest rate swaps are designated as hedges of highly probable forecast transactions (cash flow hedges).

Derivative instruments used by the credit union

The credit union enters into derivative transactions in the normal course of business to hedge exposure to fluctuations in interest rates in accordance with the credit union's interest rate risk management policies. The fair value of interest rate swaps is calculated as the present value of estimated future cash flows.

Interest rate swap contracts – cash flow hedges

The credit union's loans currently bear an average variable rate of interest of 3.53% (2020: 3.65%). It is the credit union's policy to hedge loans at fixed rates of interest by entering into interest rate swap contracts under which the credit union is obliged to receive interest at variable rates and to pay interest at fixed rates. Swaps currently in place are timed to expire as loan portfolio repayments fall due. Fixed interest rates range between 0.15% - 1.975% and variable rate ranges within -0.005% to 0.014% of the 90-day bank bill swap rate which at balance date was 0.03% (2020: 0.10%).

The notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

Within 1 year	3,000	9,000
1-2 years	3,000	3,000
2-5 years	20,000	3,000
	26,000	15,000

The contracts require settlement of net interest receivable or payable each 90 days. Settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis. Below is a schedule indicating, at balance date, the periods when the hedged cash flows are expected to occur and when they are expected to affect profit or loss.

2021	Within 1 year	1-2 years	2-5 years
	\$'000	\$'000	\$'000
Cash inflows	118	78	75
Cash outflows	(9)	(8)	(8)
Net cash flows	109	70	67

2020	Within 1 year	1-2 years	2-5 years
	\$'000	\$'000	\$'000
Cash inflows	227	53	8
Cash outflows	(13)	(5)	(3)
Net cash flows	214	48	5

Note 14

Property, Plant and Equipment

LAND		
At fair value	341	360
BUILDINGS		
At fair value	3,595	3,389
LEASEHOLD IMPROVEMENTS		
At cost	1,531	1,899
Accumulated amortisation	(1,207)	(1,424)
	<u>324</u>	<u>475</u>
PLANT AND EQUIPMENT		
At cost	3,031	2,840
Accumulated depreciation	(2,160)	(1,920)
	<u>871</u>	<u>920</u>
Total Property, Plant and Equipment	<u>5,131</u>	<u>5,144</u>

Recognition and Measurement

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

PROPERTY

Freehold land and buildings are measured at their fair value, being the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date, less subsequent depreciation. It is the policy of the credit union to have an independent valuation of land and buildings every three years in accordance with the requirements of AASB 116 Property, Plant & Equipment.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

A revaluation increment is credited to the asset revaluation surplus included within members equity unless it reverses a revaluation decrement on the same asset previously recognised in the statement of comprehensive income. A revaluation decrement is recognised in the statement of comprehensive income unless it directly offsets a previous revaluation increment on the same asset in the asset revaluation surplus. On disposal, any revaluation surplus relating to sold assets is transferred to retained earnings.

PLANT AND EQUIPMENT

Plant and equipment are measured at cost less depreciation and impairment losses.

The carrying amount of property, plant and equipment is reviewed annually by the Directors to ensure it is not in excess of the recoverable amount of these assets. The recoverable amount is assessed on the basis of expected net cash flows that will be received from the asset's employment and subsequent disposal. Any decrement in the carrying amount is recognised as an impairment expense in the statement of comprehensive income in the reporting period in which the impairment loss occurs. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

DEPRECIATION

The depreciable amount of all property, plant and equipment with the exception of freehold land, is depreciated over their useful lives to the credit union commencing from the time the asset is held ready for use. Leasehold improvements are amortised over the shorter of either the unexpired term of the lease or the estimated useful life of the improvements.

Property, plant and equipment is depreciated on a straight-line basis over the following periods.

	Years		Years
Buildings	40	Motor Vehicles	5
Computer Hardware	3-6	Leasehold Improvements	3
Office Furniture	3	Office Equipment	3

Assets under \$500 are not capitalised and are expensed directly to the statement of comprehensive income. The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income.

MOVEMENTS IN CARRYING AMOUNTS

Reconciliations of the carrying amounts of each class of property, plant and equipment between the beginning and end of the current financial year are set out below.

2021	Property	Plant & equipment	Leasehold improvements	Total
	\$'000	\$'000	\$'000	\$'000
Balance at beginning of the financial year	3,749	920	475	5,144
Net revaluation increment	187	-	-	187
Additions	14	434	6	454
Disposals	-	(11)	-	(11)
Depreciation expense	(85)	(472)	(157)	(714)
Change in use adjustment	71	-	-	71
Carrying amount at end of the financial year	3,936	871	324	5,131

During the year assets were reclassified between Leasehold Improvements to Plant & Equipment asset classes. The reclassification of assets was done at a point of time during the year which saw the cost and accumulated depreciation of the selected assets move from one asset class to the other.

2020	Property	Plant & equipment	Leasehold improvements	Total
	\$'000	\$'000	\$'000	\$'000
Balance at beginning of the financial year	4,321	609	225	5,155
Net revaluation increment	62	-	-	62
Additions	38	655	464	1,157
Disposals	-	(7)	-	(7)
Depreciation expense	(100)	(337)	(214)	(651)
Change in use adjustment	(572)	-	-	(572)
Carrying amount at end of the financial year	3,749	920	475	5,144

	2021	2020
	\$'000	\$'000
If land and buildings were stated at historical cost, amounts would be as follows:		
Cost	8,174	8,146
Accumulated depreciation	(4,586)	(4,382)
Net book value	3,588	3,764

Historical cost stated for land and buildings includes both owner-occupied and investment property.

Note 15

Investment Property

Investment property includes real estate properties in Australia, which are owned to earn rentals and capital appreciation.

Changes to the carrying amounts are as follows:

Balance at beginning of the financial year	5,502	4,929
Additions	12	-
Net gain / (loss) from fair value adjustments	201	-
Change in use adjustment	(71)	573
Carrying amount at end of the financial year	5,644	5,502

Recognition and Measurement

Investment property, comprising freehold office complexes, is held to generate long-term rental yields. All tenant leases are on an arm's length basis. Investment property is carried at fair value, determined as stated below, and adjusted to reflect the current market value of the property in accordance with the requirements of AASB 140 Investment Property. Changes in fair value of investment property are reflected in the statement of comprehensive income for the year.

Rental income and operating expenses from investment property are reported within revenue and other expenses respectively and are recognised as described in Notes 3 and 4.

FAIR VALUE OF INVESTMENT PROPERTY

The credit union determines the fair value from:

- External valuations conducted by registered valuers; and
- Directors' valuations.

The fair value of the investment property located at 101 Molesworth Street Lismore and 256 Molesworth Street Lismore was independently valued by Mr Jeremy Rutledge AAPI, as at 30 June 2021. This valuation was conducted on the basis of market value and was performed through a review of sale and rental values of comparable properties within close proximity.

Investment properties are leased out on operating leases. Rental income amounts to \$544,922 (2020: \$510,839) and is included within revenue as shown in Note 3. Direct operating expenses not recovered as outgoings from the tenants of the relevant property were reported within other expenses as shown in Note 4.

The lease contracts are all non-cancellable for either three or five years from the commencement of the lease. Refer to Note 24 for future minimum lease rentals.

UNCERTAINTY AROUND PROPERTY VALUATIONS

Fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. A 'willing seller' is not a forced seller prepared to sell at any price. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition. The fair value of investment property reflects market conditions at the end of the reporting period as disclosed. While this represents the best estimate of fair value as at the reporting date, the current market uncertainty means that if investment property is sold in future the price achieved may be higher or lower than the most recent valuation, or higher or lower than the fair value recorded in the financial statements.

	2021	2020
	\$'000	\$'000

Note 16 Intangible Assets

COMPUTER SOFTWARE

At cost	958	3,458
Accumulated amortisation	(741)	(2,946)
	217	512

OTHER INTANGIBLE ASSETS

At cost	437	437
Accumulated amortisation	(279)	(238)
	158	199
Total Intangible Assets	375	711

MOVEMENTS IN CARRYING AMOUNTS

Reconciliations of the carrying amounts of each class of intangible asset between the beginning and end of the current financial year are set out below.

	Computer Software	Other Intangible Assets	Total
	\$'000	\$'000	\$'000
Balance at the beginning of the financial year	512	199	711
IFRIC reclassification – at cost	(2,318)	-	(2,318)
IFRIC reclassification – amortisation	2,032	-	2,032
Additions	94	-	94
Amortisation expense	(103)	(41)	(144)
Carrying amount at the end of the financial year	217	158	375

Recognition and Measurement

COMPUTER SOFTWARE

Items of computer software which are not integral to the computer hardware owned by the credit union are classified as intangible assets. Specifically, costs incurred for the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of and recognition criteria for an intangible asset are recognised as intangible software assets. Computer software is amortised on a straight-line basis over the expected useful life of the software, typically linked to software contracts. These lives range from 3-5 years.

OTHER INTANGIBLE ASSETS

Other intangible assets include product development costs and other product establishment costs. Other intangible assets that are deemed to have a definite life are amortised over 5 years.

SaaS ARRANGEMENT COSTS

In applying the accounting policy, the directors made the following key judgements that may have the most significant effect on the amounts recognised in financial statements.

DETERMINATION WHETHER CONFIGURATION AND CUSTOMISATION SERVICES ARE DISTINCT FROM THE SaaS ACCESS

Implementation costs including costs to configure or customise the cloud provider's application software are recognised as operating expenses when the services are received.

Where the SaaS arrangement supplier provides both configuration and customisation services, judgement has been applied to determine whether each of these services are distinct or not from the underlying use of the SaaS application software. Distinct configuration and customisation costs are expensed as incurred as the software is configured or customised (i.e. upfront). Non-distinct configuration and customisation costs are expensed over the SaaS contract term.

Non-distinct customisation activities significantly enhance or modify a SaaS cloud-based application. Judgement has been applied in determining whether the degree of customisation and modification of the SaaS cloud-based application is significant or not.

During the financial year, the credit union reclassified \$308k as prepayments in relation to SaaS costs. The prepayment includes costs in respect of configuration and customisation activities undertaken in implementing and/or managing existing SaaS arrangements which are considered not to be distinct from the access to the SaaS application software. These prepayments will be expensed over the contract term of the specific arrangement.

CAPITALISATION OF CONFIGURATION AND CUSTOMISATION COSTS IN SaaS ARRANGEMENTS

In implementing SaaS arrangements, the credit union has developed software code that either enhances, modifies or creates additional capability to the existing owned software. This software is used to connect with the SaaS arrangement cloud-based application.

Judgement has been applied in determining whether the changes to the owned software meets the definition of and recognition criteria for an intangible asset in accordance with AASB 138 Intangible Assets.

During the financial year, the credit union recognised no costs as intangible assets in respect of customisation and configuration costs incurred in implementing SaaS arrangements.

2021	2020
\$'000	\$'000

Note 17

Leases

(a) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

RIGHT-OF-USE ASSET

Property	718	1,405
ATM	220	217
Other	70	78
	<u>1,008</u>	<u>1,700</u>

LEASE LIABILITIES

Current	384	424
Non-current	482	1,116
	<u>866</u>	<u>1,540</u>

The credit union has leases for the branch network, ATM fleet and equipment. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index are excluded from the initial measurement of the lease liability and asset.

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The table below describes the nature of the credit union's leasing activities by type of right-of-use asset recognised on balance sheet:

Right-of-use asset	No of right-of-use assets leased	Range of remaining term	Average remaining lease term	No of leases with extension options	No of leases with termination options
Property	13	0-5 years	2.0 years	3	13
ATM	5	0-4 years	2.1 years	-	5
Other	1	0-4 years	4 years	-	-

Future minimum lease payments at 30 June 2021 were as follows:

2021	Minimum lease payments due			Total
	Within 1 year	Between 2-5 years	After 5 years	
	\$'000	\$'000	\$'000	\$'000
Lease payments	420	583	-	1,003
Finance charges	(36)	(101)	-	(137)
Net present values	384	482	-	866

2020	Minimum lease payments due			Total
	Within 1 year	Between 2-5 years	After 5 years	
	\$'000	\$'000	\$'000	\$'000
Lease payments	462	1,155	213	1,830
Finance charges	(38)	(191)	(61)	(290)
Net present values	424	964	152	1,540

2021	2020
\$'000	\$'000

(a) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

DEPRECIATION CHARGE OF RIGHT-OF-USE ASSET

Property	340	377
ATM	84	103
Other	17	1
	441	481

Interest expense (included in interest expense)	20	19
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The total cash outflow for leases in 2021 was \$423k (2020: \$160k).

Recognition and Measurement

At inception of a contract, the credit union assesses whether the contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To apply this definition the credit union assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the credit union;
- the credit union has the right to obtain substantially all the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the credit union has the right to direct the use of the identified asset throughout the period of use. The credit union assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

CREDIT UNION AS LESSEE

Contracts may contain both lease and non-lease components. At the commencement or modification of a contract that contains a lease component, the credit union allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for leases of property, the credit union has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

The credit union recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost comprising, the amount of the initial measurement of lease liability; adjusted for any lease payments made at or before the commencement date less any lease incentives received; plus any initial direct costs; and an estimate of the costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located.

The right-of-use asset is subsequently depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis, unless the lease transfers ownership of the underlying asset to the credit union at the end of the lease term or the credit union is reasonably certain to exercise a purchase option. In that case, the right-of-use asset is depreciated over the underlying asset's useful life, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. If that rate cannot be readily determined the credit union's incremental borrowing rate is used, being the rate that the credit union would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the credit union obtains interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and the type of the asset leased (security).

Lease payments included in the measurement of the lease liability comprise:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable; and
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The lease liability is measured at amortised cost using the effective interest rate method. It is re-measured when:

- there is a change in future lease payments arising from a change in an index or rate;
- if there is a change in the estimate of the amount expected to be payable under a residual value guarantee;
- if there is a change in the credit union's assessment of whether it will exercise a purchase, extension or termination option: or
- if there is a revised in-substance fixed lease payment.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying value of the right-of-use asset, unless the right-of-use asset has been reduced to zero in which case the adjustment is recorded in profit or loss.

CREDIT UNION AS A LESSOR

The credit union's accounting policy under AASB 16 has not changed from the comparative period. As a lessor the Group classifies its leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not.

The credit union leases out investment properties under operating leases (see Note 15).

CRITICAL JUDGEMENTS IN DETERMINING THE LEASE TERM

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of property the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the credit union is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the credit union is typically reasonably certain to extend (or not terminate).
- Otherwise, the credit union considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The credit union assesses at lease commencement date whether it is reasonably certain to exercise the extension options or not exercise a termination option.

The lease term is reassessed if an option is actually exercised (or not exercised) or the credit union becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and it is within the control of the lessee.

Note 18

Deposits

At call deposits (including withdrawable shares)	545,743	436,375
Term deposits	261,609	283,580
Wholesale deposits	21,000	42,600
	<u>828,352</u>	<u>762,555</u>

Recognition and Measurement

Deposits are measured at the aggregated amount of money owing to depositors. Interest on deposits is brought to account on an accrual basis. Interest accrued at balance date is shown as a part of payables.

CONCENTRATION OF DEPOSITS

There is no concentration of deposits in excess of 10% of total liabilities.

Note 19

Trade and Other Payables

Accrued interest payable on deposits and borrowings	890	1,674
Sundry creditors and accrued expenses	1,139	1,046
Employee benefits - annual leave	687	718
Trade creditors	429	389
Other creditors	6,766	4,165
	<u>9,911</u>	<u>7,992</u>

This includes interest payable and unrealised expenses payable for which the carrying amount is considered to be a reasonable estimate of net fair value.

Recognition and Measurement

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at FVPL, that are carried subsequently at fair value with gains or losses recognised in profit or loss. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVPL.

SHORT-TERM OBLIGATIONS

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be wholly settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. Short-term employee benefit obligations are presented as payables.

2021	2020
\$'000	\$'000

Note 20

Provisions

Employee benefits - long service leave	992	1,000
Lease make good	155	193
	<u>1,147</u>	<u>1,193</u>

PROVISION MOVEMENT – LEASE MAKE GOOD

Balance at beginning of the financial year	193	-
Less paid	(16)	-
Liability (decrease)/increase	(22)	193
Balance at end of the financial year	<u>155</u>	<u>193</u>

ANALYSIS OF LIABILITY

Expected to be settled within 12 months	821	822
Expected to be settled after 12 months	326	371
	<u>1,147</u>	<u>1,193</u>

Recognition and Measurement

OTHER LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS

The liability for long service leave which is not expected to be wholly settled within 12 months after the end of the period in which the employees render the related service, is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

LEASEHOLD IMPROVEMENTS

A provision is recognised for the estimated make good costs on the operating leases, based on the net present value of the future expenditure at the conclusion of the lease term discounted 3-7%. Increases in the provision in future years due to the unwinding of the interest charge, is recognised as part of the interest expense.

Note 21

Borrowings

Borrowings	<u>22,488</u>	<u>9,479</u>
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Recognition and Measurement

Borrowings and subordinated debt are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the credit union chooses to carry the liabilities at fair value through profit or loss.

The credit union accessed funding through the Reserve Bank of Australia's Term Funding Facility (TFF). This facility is for a three (3) year term and has a borrowing rate in the range of 0.10% and 0.25%.

There were no subordinated debt instruments held at reporting date.

Note 22

Redeemable Preference Share Capital Account

Under the Corporations Act 2001 member shares are classified as redeemable preference shares. The redemption of these shares is required under the Act to be made from profits.

The value of the shares that have been paid to members is in accordance with the terms and conditions of the share issue and the redemption account represents the amount of profits appropriated. For values please refer to the statement of changes in member equity.

Note 23

Reserves

General reserve

The general reserve records funds set aside for future expansion of the credit union

1,376

1,376

Capital profits reserve

The capital profits reserve records non-taxable profits on sale of investments

860

860

Asset revaluation surplus

The asset revaluation surplus records revaluations of non-current assets net of income tax

2,964

2,816

General reserve for credit losses

The reserve for credit losses records amounts maintained to comply with the APRA Prudential Standards

2,241

2,076

Hedging reserve

The hedging reserve records movements in the fair value of effective cash flow hedges net of income tax

6

(58)

Note 24

Commitments

(a) Future capital commitments

At balance date the credit union has not entered into material contracts for the purchase of property, plant and equipment.

(b) Outstanding loan commitments

Loans and credit facilities approved with commitment to fund, but not funded at the end of the financial year:

Loans approved but not funded

15,070

12,601

Loans and credit facilities with an undrawn portion at the end of the financial year:

Loans amounts available but not yet drawn

5,727

5,145

Loan redraw facilities available

66,479

62,354

Undrawn overdraft and credit facilities

16,339

17,147

88,545

84,646

Total outstanding loan commitments

103,615

97,247

	2021	2020
	\$'000	\$'000

(c) Operating leases receivable

Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases:

Not longer than 1 year	587	505
Longer than 1 and not longer than 5 years	1,686	762
	<u>2,273</u>	<u>1,267</u>

Property leases are non-cancellable leases with a three to five-year term, with rent payable monthly in advance. An option exists to renew the leases at the end of the relevant term for an additional term up to five years.

Note 25

Contingent Liabilities

LIQUIDITY SUPPORT SCHEME

The credit union is a member of CUFSS a company limited by guarantee, established to provide financial support to member Australian Mutual ADIs in the event of a liquidity or capital problem. As a member, the credit union is committed to maintaining 3.1% of the total assets as deposits with CUSCAL Limited or other ADIs approved by APRA.

Under the terms of the Industry Support Contract (ISC), the maximum call for each participating Mutual ADI would be 3.1% of the credit union's total assets (3% under loans and facilities and 0.1% under the cap on contributions to permanent loans). This amount represents the participating ADIs irrevocable commitment under the ISC. At the reporting date there were no loans issued under this arrangement.

REPURCHASE OBLIGATIONS (REPO) TRUST

To support the liquidity management the credit union has entered into an agreement to maintain a portion of the mortgage backed loans as security against any future borrowings from the Reserve Bank of Australia (RBA) as a part of the credit union's liquidity support arrangements.

Note 26

Entity Consolidation

The credit union has arrangements for the transfer of loan contractual benefits of interest and repayments to support ongoing liquidity facilities. These arrangements are with the Repurchase Obligation (REPO) trust for securing the ability to obtain liquid funds from the RBA – these loans are not de-recognised as the credit union retains the benefits of the trust until such time as a drawing is required.

The MTG SCU Trust Repo Series No. 1 trust is a trust established by the credit union to facilitate the liquidity requirements under the prudential standards. The trust has an independent trustee and was established in June 2020. In the case of the REPO Trust the RBA receives a Note certificate to sell to the credit union should the liquidity needs not be satisfied by normal operational liquidity. The Note is secured over residential mortgage-backed securities (RMBS).

The credit union has financed the loans and received the net gains or losses from the trust after trustee expenses. The credit union has an obligation to manage the portfolio of the loans in the trust and to maintain the pool of eligible secured loans at the value equivalent to the value of the Notes received. The credit union retains the credit risk of losses arising from loan default or security decline, and the interest rate risk from movements in market interest rates.

As loan repayments occur, or if a loan becomes ineligible under the Trust criteria, an additional pool of eligible loans will be assigned to the Trust to maintain the Repo facility.

The value of securitised loans that are not de-recognised as at reporting date was \$94,963,113.38. In each case the loans are variable interest rate loans, hence the book value of the loans equates to the fair value of those loans.

Note 27

Classes of Financial Assets and Liabilities

The following is a summary of the credit union's financial instruments by class.

(a) Financial assets - measured at amortised cost

Cash and cash equivalents	30,347	38,006
Trade and other receivables	6,757	5,355
Loans and advances	723,841	651,195
Financial assets at amortised cost	156,147	137,672
Total	917,092	832,228

(b) Financial liabilities - measured at amortised cost

Deposits	828,352	762,555
Trade and other payables (excluding employee benefits)	9,224	7,273
Borrowings	22,488	9,479
Total	860,064	779,307

(c) Financial assets - measured at fair value

Financial assets at FVOCI	2	2
Derivatives	4	-

(d) Financial liabilities - measured at fair value

Derivatives	-	251
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Recognition and Measurement

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- amortised cost
- fair value through profit or loss (FVPL)
- equity fair value through other comprehensive income (FVOCI)

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of loans and receivables, which is presented in the statement of profit or loss and other comprehensive income.

Classifications are determined by both:

- the entity's business model for managing the financial asset and
- the contractual cash flow characteristics of the financial assets

AMORTISED COST

Financial assets are classified at amortised cost when they are held within a business model to solely collect contractual cash flows and the contractual terms of the financial assets give rise on specified date to cash flows that are solely payments of principal and interest (SPPI). Amortised cost is calculated by taking into account any discount or premium on the issue of the asset and costs that are an integral part of the effective interest rate.

Gains and losses are recognised in the income statement when the financial assets are derecognised or impaired.

FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets that are within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised as fair value through profit or loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVPL. Financial assets in this category relate to investments in listed equity securities. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

Financial assets including debt instruments are classified at fair value through other comprehensive income when they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI.

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. In certain circumstances, on initial recognition including for specific equity investments, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or fair value through other comprehensive income as fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

FAIR VALUE MEASUREMENT FOR SHARES IN UNLISTED EQUITIES (CUSCAL LTD)

This company supplies services to the credit union. The credit union designated its investment in CUSCAL Ltd equity securities as at FVOCI. The shares are able to be traded but within a market limited to other mutual ADI's. A reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same.

Note 28

Risk Management

Risk management policy and objectives

The credit union's risk management focuses on the major areas of interest rate risk, credit risk, liquidity risk and operational risk. Risk management within the credit union is designed to mitigate and minimise any unplanned or negative impacts on capital levels. The Board of Directors outline their appetite for risk to enable the credit union to achieve its strategic goals through the Risk Appetite Statement (RAS). These risk tolerances are set in measurable terms setting a range that is acceptable to the Board for management to operate within. These risk indicators are known as the RAS KRIs and are reported to the Board and Board Risk Committee at each meeting for monitoring.

(a) Interest rate risk and hedging policy

Interest rate risk is the risk that changes in interest rates, foreign exchange rates or other prices and volatilities will have an adverse effect on the credit union's financial condition or results.

The credit union is not exposed to currency risk or other significant price risk and does not trade in the financial instruments it holds on its books. The credit union is only exposed to interest rate risk arising from changes in market interest rates in its banking book and manages this through various methods including the use of interest rate swaps.

Interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates. The credit union's exposure to interest rate risk is measured and monitored using the Value at Risk (VaR) methodology of estimating potential losses.

VaR is a technique which estimates the potential losses that could occur on risk positions taken due to movements in market rates and prices over a specified time period to a given level of confidence. VaR, as set out in the table below, has been calculated using historical simulations, using movements in market rates and prices, a 99% confidence level and taking into account historical correlations between different markets and rates.

The credit union has a VaR limit to capital of 1.50%. The table below sets out the VaR position for the past two years.

	2021	2020
VaR after prepayments and hedges	\$339,161	\$297,511
VaR as % of capital	0.49%	0.47%

Repricing of financial assets and liabilities

The credit union's exposure to interest rate risk and the effective weighted average interest rate on classes of financial assets and financial liabilities is as follows:

	Floating Interest Rate	Within 1 year	1 to 5 years	Over 5 years	Non Interest Sensitive	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Repricing Period at 30 June 2021						
FINANCIAL ASSETS						
Cash and cash equivalents	28,772	-	-	-	1,575	30,347
Trade and other receivables	-	-	-	-	6,757	6,757
Derivatives	-	-	-	-	4	4
Financial assets at FVOCI	-	-	-	-	2	2
Financial assets at amortised cost	12,932	44,315	98,900	-	-	156,147
Loans and advances	485,601	55,609	182,631	-	-	723,841
TOTAL FINANCIAL ASSETS	527,305	99,924	281,531	-	8,338	917,098
FINANCIAL LIABILITIES						
Deposits	545,363	263,497	19,111	-	381	828,352
Trade and other payables	-	-	-	-	9,224	9,224
Borrowings	-	-	22,488	-	-	22,488
TOTAL FINANCIAL LIABILITIES	545,363	263,497	41,599	-	9,605	860,064
OFF BALANCE SHEET ITEMS						
Interest rate swaps	-	3,000	23,000	-	-	26,000
Undrawn loan commitments	103,615	-	-	-	-	103,615
Repricing Period at 30 June 2020						
FINANCIAL ASSETS						
Cash and cash equivalents	36,479	-	-	-	1,527	38,006
Trade and other receivables	-	-	-	-	5,355	5,355
Financial assets at FVOCI	-	-	-	-	2	2
Financial assets at amortised cost	4,628	103,274	29,770	-	-	137,672
Loans and advances	496,620	38,433	116,142	-	-	651,195
TOTAL FINANCIAL ASSETS	537,727	141,707	145,912	-	6,884	832,230
FINANCIAL LIABILITIES						
Deposits	436,087	316,111	10,069	-	286	762,553
Trade and other payables	-	-	-	-	7,273	7,273
Derivatives	-	-	-	-	251	251
Borrowings	-	-	9,479	-	-	9,479
TOTAL FINANCIAL LIABILITIES	436,087	316,111	19,548	-	7,810	779,556
OFF BALANCE SHEET ITEMS						
Interest rate swaps	-	15,000	-	-	-	15,000
Undrawn loan commitments	97,247	-	-	-	-	97,247

(b) Credit risk

Credit risk is the risk that customers, financial institutions and other counterparties will be unable to meet their obligations to the credit union which may result in financial losses. Credit risk arises principally from the credit union's loan book and investment assets.

MAXIMUM CREDIT RISK EXPOSURE

The credit union's maximum credit risk exposure, without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial asset, is the carrying amount of those assets as indicated in the statement of financial position.

LOANS

In relation to loans, the maximum credit exposure is the value on the statement of financial position plus the undrawn facilities (loans approved not advanced, loan funds available but undrawn, redraw facilities, overdraft and credit card facilities). The credit union reduces the risk of losses from loans to customers by engaging responsible lending practices. This includes verifying a borrower's capacity to repay, reviewing financial position and performance, and making reasonable inquiries about the borrower's requirements and objectives. Loan security is generally taken to assist in the mitigation of credit risk.

The credit union maintains detailed policies relating to lending including: Loans Policy; Business Lending Policy; Credit Control; Large Exposures. Policy formation, credit control and lending compliance functions are segregated from loans origination to ensure credit quality.

CONCENTRATION RISK

The credit union minimises concentrations of credit risk in relation to loans by undertaking transactions with a large number of customers. Credit risk is managed in accordance with the Prudential Standards to reduce the credit union's exposure to potential failure of counterparties to meet their obligations under the contract or arrangement.

The geographical concentrations of credit risk on loans is set out in Note 12 (b). The mortgage insurance concentration is 12.30% of the loan portfolio secured by residential mortgage. Refer to Note 12 (a) for further detail.

LIQUID INVESTMENTS

The credit union uses the ratings of reputable rating agencies to assess the credit quality of all investment exposures, where applicable, using the credit quality assessment scale in APS 112 Capital Adequacy: Standardised Approach to Credit Risk. The credit quality assessment scale within this Prudential Standard has been complied with.

The table below sets out limits on maximum holdings per rating and counterparty.

Short term S & P Rating	Maximum Holding <i>(As a percentage of total liquidity portfolio)</i>	Maximum per Counterparty <i>(As a percentage of total eligible capital)</i>
A-1+	100%	25-30% *
A-1	100%	25%
A-2	80%	25%
A-3	15%	25%
Unrated	10%	10%
Unrated – Settlement accounts	15%	15-40% *

*Selected counterparties within the A-1+ rating group have a 30% limit and selected counterparties within the Unrated Settlement accounts group have a 40% limit.

The exposure values associated with each credit quality class for the credit union's investments are as follows:

Actual Rating	2021 Balance \$'000	2021 Balance %	2020 Balance \$'000	2020 Balance %
A-1+	75,940	45	59,902	34
A-1	12,391	7	27,131	16
A-2	61,495	36	67,796	39
A-3	1,999	1	3,499	2
Unrated	8,512	5	7,156	4
Unrated – Settlement accounts	10,312	6	8,669	5
Total	170,649	100	174,153	100

(c) Liquidity risk

Liquidity risk is the risk that the credit union may encounter difficulties raising funds to meet commitments associated with financial instruments e.g. loan funding or customer withdrawal demands. It is the policy of the Board of Directors that the credit union maintains adequate cash reserves and access to wholesale funding options so as to meet the customer withdrawal demands when requested.

The credit union manages liquidity risk by:

- Continuously monitoring actual and daily cash flows and longer term forecasted cash flows
- Monitoring the maturity profile of financial assets and liabilities
- Maintaining adequate cash reserves and liquidity support facilities
- Monitoring the prudential liquidity ratio daily

The credit union is required to maintain at least 9% of total adjusted liabilities as liquid assets capable of being converted to cash within 48 hours under APS 210 Liquidity. The credit union's policy is to apply 13% as liquid assets to maintain adequate funds for meeting customer withdrawals. Should the liquidity ratio fall below this level then management and the Board are to address the matter and ensure that liquid funds are obtained from new deposits and the available borrowing facilities.

The ratio of liquid funds is set out below:

	2021	2020
Liquid funds to total adjusted liabilities:		
- As at 30 June	15.79%	16.89%
- Average for the year	16.01%	15.03%
- Minimum during the year	15.10%	13.47%
Liquid funds to total deposits:		
- As at 30 June	18.93%	20.68%

Monetary assets and liabilities have differing maturity profiles depending on the contractual term and in the case of loans the repayment amount and frequency. The associated table below shows the period in which different monetary assets and liabilities held will mature and be eligible for renegotiation or withdrawal. In the case of loans, the table shows the period over which the principal outstanding will be repaid based on the remaining period to the repayment date assuming contractual repayments are maintained. For term loans the dissection is based upon contractual conditions of each loan being strictly complied with and is subject to change in the event that current repayment conditions are varied.

Maturity profile of financial assets and liabilities

This table reflects the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity as well as management's expectations of the settlement periods for all other financial instruments. As such the amounts disclosed may not reconcile to the statement of financial position.

	Within 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No Maturity	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2021							
FINANCIAL ASSETS							
Cash and cash equivalents	28,772	-	-	-	-	1,575	30,347
Trade and other receivables	6,757	-	-	-	-	-	6,757
Derivatives	-	-	(43)	47	-	-	4
Financial assets at FVOCI	-	-	-	-	-	2	2
Financial assets at amortised cost	19,331	21,996	15,920	98,900	-	-	156,147
Loans and advances	3,604	5,452	19,448	93,149	594,512	7,676	723,841
TOTAL FINANCIAL ASSETS	58,464	27,448	35,325	192,096	594,512	9,253	917,098
FINANCIAL LIABILITIES							
Deposits	49,331	82,494	132,806	19,702	-	545,744	830,077
Trade and other payables	9,224	-	-	-	-	-	9,224
Borrowings	-	-	-	22,524	-	-	22,524
	58,555	82,494	132,806	42,226	-	545,744	861,825
Undrawn loan commitments	103,615	-	-	-	-	-	103,615
TOTAL FINANCIAL LIABILITIES	162,170	82,494	132,806	42,226	-	545,744	965,440
2020							
FINANCIAL ASSETS							
Cash and cash equivalents	36,479	-	-	-	-	1,527	38,006
Trade and other receivables	5,355	-	-	-	-	-	5,355
Financial assets at FVOCI	-	-	-	-	-	2	2
Financial assets at amortised cost	22,092	16,435	29,575	69,570	-	-	137,672
Loans and advances	3,836	6,784	20,245	81,950	530,759	7,621	651,195
TOTAL FINANCIAL ASSETS	67,762	23,219	49,820	151,520	530,759	9,150	832,230
FINANCIAL LIABILITIES							
Deposits	52,579	95,633	171,193	10,619	-	436,374	766,398
Trade and other payables	7,273	-	-	-	-	-	7,273
Borrowings	-	-	-	9,485	-	-	9,485
Derivatives	-	-	151	100	-	-	251
	59,852	95,633	171,344	20,204	-	436,374	783,407
Undrawn loan commitments	97,247	-	-	-	-	-	97,247
TOTAL FINANCIAL LIABILITIES	157,099	95,633	171,344	20,204	-	436,374	880,654

(d) Operational risk

Operational risk is the risk of loss to the credit union resulting from deficiencies in processes, people, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks in the credit union relate to risks arising from a number of sources including legal compliance, business continuity, data, infrastructure, outsourced services, fraud, and employee errors.

The credit union's objective is to manage operational risk so as to balance the avoidance of financial losses through the implementation of controls, whilst avoiding procedures which inhibit innovation and creativity. These risks are managed through the implementation of policies and systems to monitor the likelihood of the events and minimise the impact.

(e) Capital management

Under the APRA Prudential Standards capital is determined in three components being Credit Risk, Interest Rate Risk (trading book) and Operational Risk.

The credit union is required to maintain a minimum regulatory capital level of 8% as compared to the risk weighted assets at any given time. The level of the capital ratio can be affected by growth in assets relative to growth in reserves and by changes in the mix of assets.

The interest rate risk component is not required as the credit union is not engaged in a trading book for financial instruments.

To manage the credit union's capital, the credit union reviews the capital ratio monthly and monitors major movements in asset levels. Policies have been implemented which require reporting to the Board and APRA if the capital ratio falls below 13%. Further, a 3-year forward projection of the capital levels is maintained to address how strategic decisions or trends may impact on the capital level, as part of the annual Internal Capital Adequacy Assessment Process (ICAAP).

The capital required for any change in the credit union's forecasts for asset growth, or unforeseen circumstances, is assessed by the Board using capital forecasting models to assess the impact upon the overall capital position of the credit union.

The credit union's regulatory capital comprises two tiers:

TIER 1 CAPITAL

Tier 1 Capital consists of:

1. Common Equity Tier 1 Capital (CET1) - which comprises the highest quality components that satisfy the following characteristics:
 - Provide a permanent and unrestricted commitment of funds
 - Are freely available to absorb losses
 - Do not impose any unavoidable servicing charge against earnings
 - Rank behind the claims of depositors and other creditors in the event of winding-up the issuer

It typically consists of retained earnings, accumulated income, other disclosed reserves and revaluation reserves.

2. Additional Tier 1 Capital - the only difference to CET1 is that these instruments provide for fully discretionary capital distributions and rank behind claims of depositors and more senior creditors.

TIER 2 CAPITAL

Tier 2 Capital includes other components of capital that fall short of the quality of Tier 1 capital but still contribute to the overall strength of an ADI and its capacity to absorb losses, such as subordinated debt and reserve for credit losses.

The capital structure as at the end of the financial year, for the past two years is as follows:

Capital structure	2021	2020
	\$'000	\$'000
Net Tier 1 Capital	66,145	60,802
Net Tier 2 Capital	3,246	3,461
Total Capital Base	69,390	64,264
Total Risk Weighted Assets	452,321	420,597
Total Capital Ratio	15.34%	15.28%
Tier 1 Capital Ratio	14.62%	14.46%

Note 29

Valuation of Financial Instruments

Fair value of assets and liabilities

The credit union measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the credit union would receive to sell an asset or would have to pay to transfer a liability in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets or liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e. the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in the highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities may be valued, where there is no observable market price in relation to the transfer of such financial instrument, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

FAIR VALUE ESTIMATE FOR FINANCIAL ASSETS AND LIABILITIES

The aggregate net fair values of financial assets and liabilities, both recognised and unrecognised, at the balance date are as follows:

	2021		2020	
	Carrying value \$'000	Net fair value \$'000	Carrying value \$'000	Net fair value \$'000
ASSETS				
Cash and cash equivalents	30,347	30,347	38,006	38,006
Trade and other receivables	6,757	6,757	5,355	5,355
Derivatives	4	4	-	-
Financial assets at FVOCI	2	2	2	2
Financial assets at amortised cost	156,147	156,147	137,672	137,672
Loans and advances	723,841	719,833	651,195	651,398
LIABILITIES				
Deposits	828,352	828,940	762,555	764,158
Trade and other payables	9,911	9,911	7,992	7,992
Borrowings	22,488	22,488	9,479	9,479
Derivatives	-	-	251	251

FAIR VALUE HIERARCHY

The credit union measures fair values of assets and liabilities carried at fair value in the financial report using the following hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical asset or liability.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes assets or liabilities valued using:

- Quoted market prices in active markets for similar assets or liabilities
- Quoted prices for identical or similar assets or liabilities in markets that are considered less than active
- Other valuation techniques where all significant inputs are directly or indirectly observable from market data

Level 3: Valuation techniques using significant unobservable inputs. This category includes all assets and liabilities where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the asset's or liability's valuation. This category includes assets and liabilities that are valued based on quoted prices for similar assets or liabilities where significant unobservable adjustments or assumptions are required to reflect differences between them.

Fair values for financial instruments or non-financial assets or liabilities traded in active markets are based on quoted market prices at reporting date. The quoted market price for financial assets is the current bid price. The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. To the extent possible assumptions used are based on observable market prices and rates at the end of the reporting date.

The table below categorises financial instruments and non-financial assets, measured and recognised at fair value at the reporting date by the level of the fair value hierarchy into which the fair value measurement is categorised.

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
2021				
<i>Recurring fair value measurements</i>				
Land and Buildings	-	5,131	-	5,131
Investment properties	-	5,644	-	5,644
Derivatives	-	4	-	4
Financial assets at FVOCI	-	-	2	2
2020				
<i>Recurring fair value measurements</i>				
Land and Buildings	-	-	3,748	3,748
Investment properties	-	-	5,502	5,502
Derivatives	-	251	-	251
Financial assets at FVOCI	-	-	2	2

There have been no significant transfers into or out of each level during the year ended 30 June 2021 or the prior year.

Disclosed fair values

The credit union has a number of assets and liabilities which are not measured at fair value, but for which fair values are disclosed in the notes.

Cash and cash equivalents as well as receivables from other financial institutions are short-term liquid assets which approximate fair value.

The carrying value less impairment provision of receivables and payables is a reasonable approximation of their fair values due to their short-term nature. The fair value of fixed interest loans and advances for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate on similar loans offered in the marketplace. The carrying amount of variable interest loans and advances approximate their fair value.

The fair value of financial liabilities such as deposits for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the credit union for similar financial instruments.

VALUATION TECHNIQUES USED TO DERIVE LEVEL 3 FAIR VALUES RECOGNISED IN THE FINANCIAL STATEMENTS

Land & buildings and investment properties

Land and buildings are fair valued on an annual basis and independently valued every three years. At the end of each reporting period the credit union reassesses whether there has been any material movement to the fair value of land and buildings to determine whether the carrying amount in the financial statements requires adjustment. The credit union determines each property's value within a range of reasonable fair value estimates.

The best evidence of fair value in current prices is an active market for similar properties. Where such information is not available the credit union considers information from a variety of sources, including:

- Current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences
- Discounted cash flow projections based on rental yields

Due to the nature of the credit union's property it is considered to have only level 3 valuation inputs in the years where an independent valuation is not undertaken.

Note 30

Economic dependency

The credit union has an economic dependency on the following suppliers of service:

(a) Fiserv

This entity processes direct entry transactions and also operates the electronic switching network used to link customer card transactions on ATMs and other approved POS devices with merchants, and to the credit union's core banking system.

(b) Data Action Pty Ltd

This entity provides and maintains the banking application software for the credit union (i.e. core banking system).

(c) Australian Settlements Ltd

This entity provides settlement services for BPAY, card transactions, direct entry, chequing and RTGS (high value irrevocable transactions).

Note 31

Events occurring after the reporting period

No matters or circumstances have arisen since the end of the financial year that significantly affected or may significantly affect the operations of the credit union, the results of those operations, or the state of affairs in subsequent financial years.

Note 32

Statement of Cash Flows

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and 'at call' deposits, net of overdrafts with other financial institutions. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash and cash equivalents	30,347	38,006
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(b) Cash flows presented on a net basis

Cash flows arising from the following activities are presented on a net basis in the statement of cash flows:

- deposits into and withdrawals from savings, money market and other deposit accounts
- sales and purchases of maturing certificates of deposit
- short-term borrowings; and
- provision of loans and the repayment of such loans

(c) Reconciliation of cash flow from operations with profit after income tax

Profit after income tax	4,863	2,097
Non-cash flows in profit after income tax:		
Net Profit / (Loss) on sale of assets	11	7
Revaluation of Land & Buildings	(187)	(62)
Revaluation of Investment Property	(201)	-
Depreciation and amortisation	1,299	922
Provision for loan impairment	(342)	704
Changes in assets and liabilities:		
(Decrease)/Increase in provisions	(46)	270
Increase in interest payable	(764)	(909)
Decrease/(Increase) in interest receivable	213	(70)
Increase in income taxes payable	292	21
Increase in deferred tax assets	98	104
Decrease in deferred tax liability	62	(3)
Increase in other assets	(1,028)	(224)
Decrease/(Increase) in trade and other payables	2,616	(8,561)
(Decrease)/Increase in trade and other receivables	(1,614)	2,733
	5,272	(2,971)
Net movement in liquid investment balances	(18,475)	(36,977)
Net movement in loans	(72,407)	(48,676)
Net movement in deposits	65,797	108,719
Net cash provided by operating activities	(19,813)	20,095

Note 33

Credit union details

The registered office of the credit union and the principal place of business is:
Summerland Financial Services Limited
101 Molesworth Street Lismore NSW 2480

Declaration by Directors

The Directors of Summerland Financial Services Limited declare that:

In the opinion of the Directors:

1. (a) The financial statements and notes of the credit union are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the credit union as at 30 June 2021 and of its performance for the year ended on that date, and
 - (ii) complying with Accounting Standards and the Corporations Regulations 2001;
- (b) There are reasonable grounds to believe that the credit union will be able to pay its debts as and when they become due and payable.
2. The notes to the financial statements include a statement of compliance with International Financial Reporting Standards.

This declaration is made in accordance with a resolution of the Board of Directors.

Katrina Luckie
Chair

Colin Sales
Chair Audit Committee

Lismore 29 September 2021

Independent Auditor's Report

To the Members of Summerland Financial Services Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Summerland Financial Services Limited (the Company), which comprises the statement of financial position as at 30 June 2021, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the Company's financial position as at 30 June 2021 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.



Grant Thornton Audit Pty Ltd
Chartered Accountants



Claire Scott
Partner – Audit & Assurance

Sydney, 29 September 2021

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Summerland Credit Union

A Division of Summerland Financial Services Limited

ABN 23 087 650 806 | AFSL 239 238 | Australian Credit Licence 239 238